



Hong Kong
The 1997-98 Budget

*Continuity
in a
Time of Change*

*Speech by the Financial Secretary, moving the
Second Reading of the Appropriation Bill 1997*

12 March 1997

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THE 1997-98 BUDGET

CONTINUITY IN A TIME OF CHANGE

*Speech by the Financial Secretary
The Hon Donald Tsang OBE JP*

moving the Second Reading of the Appropriation Bill 1997

Wednesday, 12 March 1997

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INTRODUCTION

An Historic Occasion

I move that the Appropriation Bill 1997 be read a second time.

2. With this short conventional phrase, we begin deliberation of what, by any measure, is a rather extraordinary Budget. After all, 1997 is a very special year for Hong Kong. The eyes of the world will be upon us as we set out on our historic journey.

3. As we gather here today, we are a dependent territory which has been under British Administration for 150 years. In a little over three months' time, and indeed for most of the period covered by this Budget, we will be a Special Administrative Region of the People's Republic of China. This is a defining moment in our history.

4. My underlying theme this afternoon will be the need for Hong Kong to find a balance between continuity and change during this exceptional year. We need continuity for our existing policies and programmes which support our economic and social progress. But with our dynamic society and fast-moving economy, we cannot afford to stand still. We must improve, we must grow. We must move forward. Fortunately, our healthy public finances and robust economic prospects have made the task of finding the right balance somewhat easier.

5. The Budget I am presenting this afternoon is unique because it is a transitional one, a Budget specially designed to meet the circumstances of 1997. It must respond to the far-reaching consequences of the resumption of the exercise of sovereignty and the creation of the Special Administrative Region. This Budget seeks to fulfil that historic mission. At its most basic level, it provides continuity both in terms of our fiscal framework and in terms of our public services. At the same time, because of the unique circumstances of its preparation, the Budget operates on a higher plane to show how we can work together with China and fulfil the promises of the Joint Declaration and the Basic Law. To achieve this

goal, we have drawn up a Budget which not only follows strictly our traditional principles of prudent financial management, but also complies with the provisions of the Basic Law which will come into effect on 1 July.

Speech Structure

6. This afternoon, I will start by reporting on the consultation process which has produced this Budget. I will then discuss the role of the Basic Law in underpinning the Budget and in promoting our future prosperity before turning to the Government's major spending programmes. I have already presented a detailed review of how the economy performed in 1996 and what we can look forward to this year in two speeches I made, the first in December and the second last month. So, unlike last year, I will only briefly outline our economic performance and prospects.

7. I will also describe the major improvements we propose to make to our services. This review will be followed by a report on the public finances, including the forecast outturn for 1996-97, the estimates for 1997-98, and the Medium Range Forecast up to the early part of the next century. This will set the scene for my revenue proposals.

8. As I did last year, to conclude my Speech, I will outline my main points and proposals in Cantonese.

A PROCESS OF CONSULTATION

9. Because this is a transitional Budget, the British and the Chinese Sides needed to go through a process of consultation in order to achieve a unified Budget for the whole financial year.

The Joint Liaison Group

10. As Members will recall, a Budget Expert Group was established in 1995 under the Sino-British Joint Liaison Group to deal with the transitional Budget and related matters. When we started these consultations, the sceptics predicted nothing but bad news. The reality has proved to be very different. The Budget Expert Group has worked throughout in a co-operative spirit. Its discussions

have been pragmatic and constructive. And it has reached rapid consensus at every stage. Members will have noted the repeated public declarations by the Chinese Side over the last year that their involvement in the budget process was unique. They have made clear that after 30 June 1997, preparation of the annual Budget will be a matter entirely for the Special Administrative Region and its Government in accordance with Article 106 of the Basic Law. These declarations have been very helpful in reassuring both the local and the international community.

11. In this year of transition, it would have been all too easy to send the wrong signals about the future of our economic and social policies, budgetary principles and business practices on which Hong Kong has built its past success. Thus, throughout the budget consultations, we had four objectives.

- First, we wanted to achieve a Budget that would cover the entire financial year from 1 April 1997 to 31 March 1998; a budget which was financially sound and prudent and which would take into account the interests of all.
- Second, we wanted to ensure that our public services would continue smoothly, uninterrupted by the transition. This goal covered not only existing services, but also the improvements which particular programmes needed.
- Third, we wanted to ensure that there would be no room for doubt about the continuity of the tax system and our other sources of revenue across the transition.
- Fourth, we wanted to draw up a Budget which would strengthen Hong Kong's financial and economic prospects for the future.

12. I am able to present before Members today a Budget which both sides have agreed in the Budget Expert Group. I believe that the two sides were able to reach agreement for two reasons. First, we had a shared commitment to a smooth and successful transition. Second, we had a shared understanding that the Basic Law's provisions should guide the drawing up of this year's Budget. I hope that by the time I have finished speaking, Members will agree that we have met the objectives which we set ourselves in these consultations.

THE CONSTITUTIONAL FRAMEWORK

13. I should now like to explain the important part played by the Basic Law. Its 160 Articles define our constitutional framework, our political institutions and the shape of our future from 1 July. In particular, they will guide our economic policies. 42 Articles refer directly to economic issues and another 28 are related to economic development. By my count, 44 per cent of the Basic Law's provisions are designed to lay down the economic rules of the Special Administrative Region and to describe how Hong Kong's separate economic system will continue to flourish. (I should like to mention here that the full text of the Basic Law Articles to which I refer this afternoon is shown in the supplement to the printed version of this Speech.)

14. The most important of these is Article 5. It states: "The socialist system and policies shall not be practised in the Hong Kong Special Administrative Region, and the previous capitalist system and way of life shall remain unchanged for 50 years." This is a clear pledge that Hong Kong will continue to enjoy free, open and competitive markets which are not controlled by state planning or state direction.

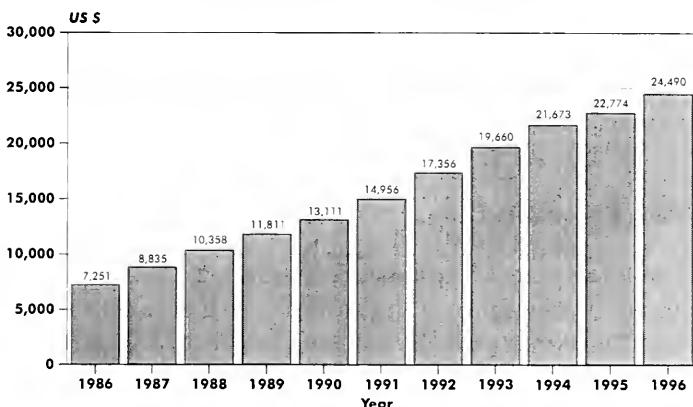
15. Plainly, I cannot review the Basic Law in detail this afternoon. Instead, I will concentrate on just three of its economic features:

- its commitment to Hong Kong's role as an international business centre;
- its guarantee of financial prudence; and
- its promise of economic autonomy.

A Centre for International Business

16. Hong Kong's domestic economy is too small by itself to provide the standard of living the community expects. That is why we look to sell our goods and services throughout China, around the Asian region and to the rest of the world. As a result, we now have a GDP per head of US\$24,500. We will only be able to sustain our impressive record of economic growth in the years ahead through attracting as large a share as possible of the world's trade and investment transactions.

Per capita GDP at current market prices



GDP per head is now US\$24,500.

17. In recent years, our performance as an international business centre has won very high marks from independent and prestigious authorities.

- The International Monetary Fund gave Hong Kong a resounding vote of confidence at the end of 1996. It commended our macroeconomic conditions as creating the environment for a smooth transition. It endorsed the continuation of our existing policy framework, including our prudent fiscal policies, the linked exchange rate and our firm financial regulations.
- The Heritage Foundation ranked us as the world's freest economy in its 1997 Index of Economic Freedom. Hong Kong was graded against ten factors, including trade and tax policies, government consumption of economic output, foreign investment and wage and price controls. Hong Kong came out top.

18. The Basic Law, in Articles 109, 112, and 114, offers a commitment to Hong Kong's continuing role as a centre for international business. They define Hong Kong as serving the needs of international business in three ways:

- ¬ through providing a centre for international financial transactions;
- ¬ through providing free flows of invisible trade based on an absence of exchange controls; and
- ¬ through providing a free flow of merchandise trade based on a free port and the absence of tariffs.

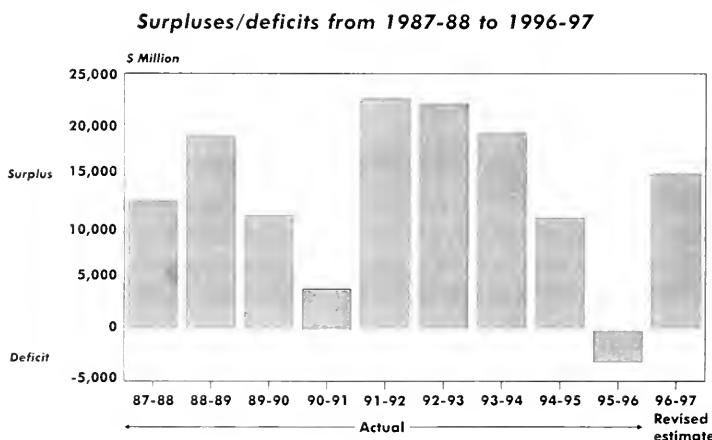
These three Articles are a clear pledge to the 2,300 foreign firms which, by the middle of 1996, had set up regional headquarters or offices here. They pledge that Hong Kong will continue to provide a favourable trading and investment environment for its overseas partners. Above all, they pledge the continuity which the international business community is seeking from 1 July.

Financial Prudence

19. The Basic Law is not only committed to providing a business-friendly setting for international trade and finance. It also offers a guarantee of financial prudence in Article 107. This Article promises that Hong Kong will not abandon its tradition of avoiding deficit budgets. And it does not allow government spending to outstrip the overall growth of the economy. This guarantee of financial prudence is reinforced by Article 108 which identifies "the low tax policy previously pursued in Hong Kong" as a benchmark for the future.

20. Hong Kong should have no difficulty in complying in full with these provisions of the Basic Law.

- ¬ Living within our means has been a fundamental principle of our public finances for at least fifty years.
- ¬ Avoiding budget deficits is a well-established tradition. In nine of the last ten years, we actually achieved a budget surplus. (Only at the peak of our investment in the Airport Core Programme in 1995-96 did we record a deficit.)



In nine of the last ten years there has been a budget surplus.

- Matching government spending to the trend growth in GDP is a discipline which Hong Kong's Financial Secretaries have long accepted. In the five financial years since 1991, growth in government expenditure and GDP were identical in real terms at 30 per cent.

Article 107 and its guarantee of financial prudence is an important reassurance for entrepreneurs and investors, both here and overseas. It is a guarantee that there will be no change from 1 July in either the philosophy or the policies which have enabled Hong Kong to create Asia's most attractive business environment.

Economic Autonomy

21. At the same time, entrepreneurs and investors need to know what a high degree of autonomy will mean in practice for the economy. In particular, how much autonomy the Special Administrative Region will have in its trade and financial relations with the rest of the world.

22. Three Articles in the Basic Law define Hong Kong's future economic autonomy. Article 106 states: "The Hong Kong Special Administrative Region shall have independent finances." Article 110 states: "The monetary and financial systems of the Hong Kong Special Administrative Region shall be prescribed by law." Article 115 states: "The Hong Kong Special Administrative Region shall pursue the policy of free trade and safeguard the free movement of goods, intangible assets and capital."

23. These Articles have a clear message.

- The resources of Hong Kong are to be managed separately and independently. They are to be used exclusively for the benefit of Hong Kong people.
- Hong Kong's financial and monetary affairs shall be determined exclusively by Hong Kong laws.
- Trade and investment will continue to enjoy freedom of movement and freedom of markets.

These three Articles do not impose new or difficult demands on us. On the contrary, they are a promise that Hong Kong's best practices will continue into the future. They enshrine in law Hong Kong's winning formula for economic success in the past. They will prove even more important in ensuring our future prosperity.

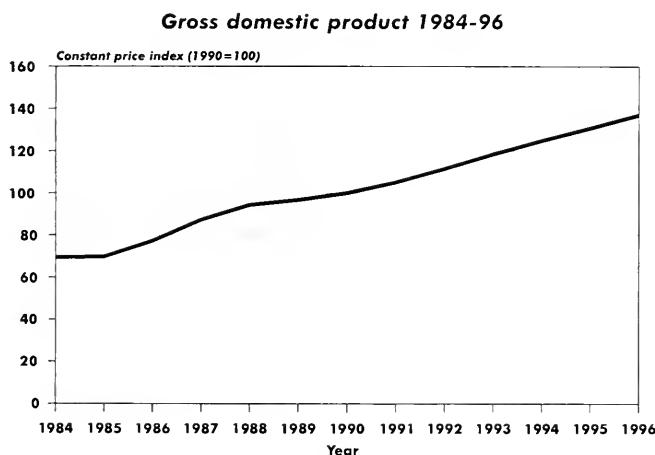
24. These provisions of the Basic Law are of special importance in allowing Hong Kong to protect its standing in world markets. Without the economic autonomy they confer, we would not qualify for membership of such international bodies as the World Trade Organisation, for example, or the Bank for International Settlements, the Asian Development Bank, the World Customs Organisation and APEC. These are the key forums shaping the future of the global economy. As the world's eighth largest trading economy, the ninth largest exporter of services and the fifth largest foreign exchange market, it is vital for Hong Kong that our voice is heard in their deliberations. That our views influence their decisions. The British and the Chinese Sides have agreed the necessary arrangements to continue Hong Kong's separate membership of such bodies from 1 July in accordance with Articles 116 and 151 of the Basic Law. And we are already taking full advantage of the opportunities offered by membership of these organisations.

The Four Pillars

25. I have tried to sum up the spirit of the separate economic system which the Basic Law is pledged to safeguard in what I have often called Hong Kong's "four pillars of wisdom". These are the rule of law, a level playing field, corruption-free government and the free flow of information. To ensure the rule of law, the community must live by laws that are public, laws that apply to all and are enforced by courts which are fair, open to all and independent. A level playing field is crucial for competitive markets and efficient business. It means that contracts are awarded fairly and equitably. No favours. No patronage. A corruption-free government is essential to preserve the rule of law and a level playing field. Without a total commitment to integrity, the Civil Service will not command the respect of the community or win its co-operation. Finally, the free flow of information is the lifeblood of a modern service economy. It leads to transparency and accountability in both the public and the private sectors. It is the best protection against corruption and abuse of power, not only by Government but in the business world as well.

CONTINUITY AND CHANGE: MEETING ECONOMIC NEEDS

26. At this point, I should like to focus on the resilience of our economy and its ability to adjust to changing political as well as business conditions. A major reason we have almost doubled our GDP in real terms since 1984 is the momentum of economic development in the mainland of China over this period. Hong Kong has been uniquely placed to take the fullest advantage of the business opportunities created by economic modernisation and the "open door" policies.



GDP has almost doubled in real terms since 1984.

27. At the same time, we should not ignore another, peculiarly Hong Kong factor. Hong Kong has long had a clear understanding between the Government and the business community that business decisions are best left to entrepreneurs and investors. The Government's job is to provide the right environment for business to grow. We do not pretend to be better at forecasting the nature and trends of market demand than businessmen risking their own capital. Unlike some others in Asia who were caught by the slump in the electronics industry, Hong Kong emerged in good shape from 1996.

Future Forecasts

28. I now turn to 1997. We believe that China's economic policies will continue to produce relatively high growth rates combined with good control of inflationary pressures. We also anticipate steady, or in some cases better, performance in a number of OECD and Asian economies which trade with us and China. Locally, we anticipate a further strengthening in consumer demand. Taking these factors together, as I explained last month in some detail, we are forecasting for this year:

- 5.5 per cent real growth in GDP;
- 8.5 per cent increase in merchandise exports and 8 per cent increase in exports of services; and
- 7 per cent increase in inflation (CPI(A)).

29. Thus, as Members can appreciate, 1997 promises to be another year of sound, sustainable growth. This will ensure solid growth in employment, new business opportunities and good profits across the economy as a whole. But the slight pick-up envisaged in inflation is a reminder that when a mature economy like ours is growing at a rate close to full capacity, there will inevitably be pressures on both our labour and our land resources. Indeed, we have already seen pressures building up faster than we would prefer on the property market in particular. (I will return later in my Speech to how we can tackle property prices.) To contain these pressures, we will have to continue our battle against inflation. This underlines the importance of the Government maintaining the tightest control over public spending and pursuing maximum value for money throughout the public sector. It also means doing everything possible to raise productivity and enhance business efficiency.

Helping Business

30. At which point I turn naturally to the subject of helping business, one close to my heart. I should now like to explain how this transitional Budget has tried to respond to the needs of the business community. Hong Kong thrives by deliberately leaving as much room as possible for enterprise and innovation. Our low, simple and predictable tax regime is rightly famous. The level of government regulation of trade and investment is the lowest in the world. But there is no room for complacency. I believe that we should adopt an active strategy to maximise our growth prospects. Thus, in last year's Budget, I announced a package of new measures to support business and to make government procedures more user-friendly.

31. Over the past 12 months, the Secretary for the Treasury, supported by the Efficiency Unit, has led a special task force to make sure that the Hong Kong Government is truly "business friendly". The task force has completed the seven pilot studies which made up the first phase of the Helping Business Programme. We are now implementing the recommendations.

32. In December, I formed a Business Advisory Group comprising eleven top businessmen plus six senior government officials. The Group will set the agenda for the second phase of the Programme. We will look at ways to cut red tape further and reduce over-regulation. We will examine ways to measure, and then reduce, the cost of complying with government requirements. We will see what more scope exists for services now performed by the Government to be taken up by the private sector. In all of this work, we will listen very closely to the private sector's needs and respond as best as we can.

Services Promotion

33. Last year, I also drew attention to the changing nature of our economy and the growing importance of the services sector. Since August 1995, I have chaired a Task Force on Services Promotion, taking advice from a group of businessmen.

34. Attached to the 1996 Budget was an Addendum which set out specific proposals covering the major service industries. As is the way in Hong Kong, things have progressed very rapidly. For example, we have:

- introduced legislation to allow development of a captive insurance industry;
- finalised plans for the Mortgage Corporation;
- completed negotiations on all major Air Services Agreements, giving us our own separate arrangements;
- issued 6 licences for Personal Communications Services; and
- opened a dialogue with Hong Kong Telecom to develop further Hong Kong's international telecommunications market.

Overall, we have achieved over 90 per cent of our original target. The record is impressive. Full details, including our plans for the coming year, are in the Final Report of the Task Force which is published today to mark the end of its work.

35. Nor have others been idle. For example, a year ago, I asked the Trade Development Council to add the task of promoting Hong Kong's trade in services to its other responsibilities. The Council has responded to this challenge with gusto. Already it has developed a long-term strategy which emphasises both the breadth and depth of Hong Kong's quality services. In 1996-97, it spent over \$28 million on a promotional campaign. In the coming year, it will spend nearly \$30 million. The Export Credit Insurance Corporation and the Hong Kong Productivity Council have also played their part. Again, full details of these initiatives are given in the Final Report.

36. I have been impressed too by progress made by the Stock Exchange and Futures Exchange in developing and marketing new products. For example, the introduction of pound sterling futures contracts and the preparations for the launching of regional derivative warrants and convertible bonds. I welcome these developments which enhance our position as an international financial centre. I would be willing to consider favourably, on a case-by-case basis, what incentives new products might enjoy including possibly some form of stamp duty concession.

37. Similarly, with stamp duty on stock transactions. I remain prepared to review the stamp duty rate once the industry has finalised its plans to reduce brokerage charges.

38. Publication of the Task Force's Final Report does not mean our work is finished. On the contrary, it is just beginning. I intend to form a new high level Services Promotion Strategy Group to give an overall steer on the way forward. To make sure Hong Kong remains the services centre par excellence in the region, and indeed the world. Its members will include senior representatives from the Trade Development Council, the Coalition of Service Industries and Chambers of Commerce. It will hold its first meeting next month.

New Unit

39. It is vital to maintain the momentum. I am personally committed to seeing that the initiatives we have launched are taken forward with full vigour. So, I propose to create a new unit to take responsibility for both Helping Business and Services Promotion and have identified the necessary resources. This Unit will not be some far flung quango. It will be part of my own office and its head will report directly to me.

Building the Infrastructure

40. While changes to the institutional arrangements are taking place, we have continued to strengthen our infrastructure. For example, we are pressing ahead with the modernisation of our transport facilities.

- We have created the world's busiest container port. In 1996, it handled 13.2 million TEUs. We expect the first berth of CT9 to come on stream in 1999. In 2002, when the whole terminal is completed, 2.6 million TEUs will be added to the annual handling capacity of our port.
- The new airport is scheduled to open in April 1998. It will be able to handle 35 million passengers and 3 million tonnes of cargo a year. The completion of a second runway at the end of 1998 will boost overall runway capacity from 38 to 50 aircraft movements per hour within the first year of commissioning.
- Over the next few months, we will progressively complete the Airport Core Programme's transport corridor between Central District and Chek Lap Kok. We will open this to the public in stages.
- Our cross-border land crossings handle over 24,000 vehicles and nearly 150,000 passengers a day. In 1997-98, we propose to spend \$30 million to increase staff at Lok Ma Chau and Sha Tau Kok to cope with the build-up in traffic. We are also conducting a study on the works necessary to expand the facilities at Lok Ma Chau.
- We are poised to embark on major improvements under the Railway Development Strategy over the next few years. These include Phase I of the Kowloon Canton Railway Corporation's Western Corridor Railway, the Mass Transit Railway Corporation's extension to Tseung Kwan O, the Ma On Shan to Tai Wai Railway and the extension from Hung Hom to Tsim Sha Tsui of the Kowloon Canton Railway. I shall have more to say later on the funding implications of the Railway Development Strategy. The final decision on these projects will, of course, rest with the SAR Government.

41. We have also made good progress on the initiatives I announced last year to create an advanced technology base.

- We have earmarked funds for Phase I of the Science Park project. We estimate that this will cost over \$400 million over the next five years.

A Planning Committee will examine the project in more detail and take it forward when the site in Tai Po becomes available in early 1998.

- We have identified a site for the second industrial technology centre. Funds will be available for work to start in 1998.
- We are investigating the potential of a site in Tuen Mun for the fourth industrial estate. The new estate should be ready by the year 2004 when the Hong Kong Industrial Estates Corporation's land bank is expected to be fully taken up.

CONTINUITY AND CHANGE: MEETING THE COMMUNITY'S NEEDS

42. In finding the right balance between continuity and change, we have to respect our social values, as well as recognise our economic priorities. Rightly, Hong Kong expects its living standards to improve and the Government to upgrade the range and quality of public services each year.

Housing: Improving the Supply

43. One of the most important of these is housing. It is probably the item which comes highest on a family's agenda. Over the last five years, in partnership with the Housing Authority, we have increased spending on housing by 34 per cent in real terms. In 1997-98, total public spending on housing will be \$32.1 billion. This represents an increase of 16 per cent in real terms over 1996-97.

Building More Homes

44. Largely as a result of this substantial investment, about 63,000 new flats will become available in 1997-98. Of these 21,500 will be public rental flats, 16,000 will be subsidised flats for sale and 4,000 will be flats for the Sandwich Class Housing Scheme operated by the Housing Society. The rest, that is 21,500, will be produced by the private sector.

Land Supply

45. However, demand for housing still outstrips supply. The only really effective long-term solution is for the Government to produce more land for residential development. In the last five years, we have made available 257 hectares of land for public rental and subsidised home ownership flats, and another 145 hectares for private development. Over the next five years, we plan to release another 327 hectares for public and 260 hectares for private housing – an increase of 46 per cent over the previous five years. But I recognise that we must try to do even more. So, I have decided to chair a special task force to look at land supply and its impact on infrastructure and housing development. The relevant policy secretaries will join me in this new initiative. We will start our work shortly.

46. Hong Kong has made remarkable progress in providing adequate shelter for our community. 47 per cent of our households live in public housing. And as standards of living have risen, more and more people aspire to owning their own home. We will step up our efforts to help them achieve this ambition. Over the next two years, as a result of our recent injection of \$1.38 billion into the Housing Society's Sandwich Class Housing Loan Scheme, we will be able to provide loans to a further 3,000 families.

The Pressure on Prices

47. In the meantime, until the additional land is available, there continues to be pressure on property prices. We are constantly reviewing market conditions. We are already taking action against speculators using companies to buy flats and resell them shortly afterwards. The Inland Revenue Department is tackling this problem vigorously by charging Profits Tax on any gains from these trading-type transactions. I welcome the steps which the Real Estate Developers Association is taking to inhibit speculation. And the Hong Kong Monetary Authority will continue to encourage financial institutions to take a prudent and responsible attitude towards mortgage lending.

Improvements in Key Services

48. In addition to housing, this community quite rightly attaches importance to the education of its children, to the provision of adequate health and welfare services and to the maintenance of law and order. In recent years, we have been able to make major improvements in these services. Unlike most advanced economies, Hong Kong has not had to increase the burden on the taxpayer in

responding to the public's rising expectations. On the contrary, we have been able to reduce taxation while at the same time making significant improvements. We have been able to afford these because our economic growth has generated the necessary wealth to do so.

49. I am happy to tell Members that in 1997-98 we can build on our past achievements. We can, once again, use some of the additional resources produced by our continuing economic growth to make life better for our community. In deciding how best to meet the community's aspirations, I have consulted widely. Members of this Council have been as generous as ever with their comments and suggestions. I have also benefited from the views and advice of a wide range of professional associations and interest groups. This has made a difficult task considerably easier. I hope that, like last year, Members will be able to identify the contributions which they have made in shaping our spending plans.

Education : Investing in Quality

50. In education, our priority must be to maintain and upgrade the quality. In recent years, Hong Kong has faced the challenge of change socially, economically and technologically. As a result, the community has become increasingly concerned about whether our education system can produce young people with the right professional, technical or vocational qualifications and skills to sustain the development of Hong Kong into the next century. These concerns are shared by parents, educators, employers and the Government alike.

51. In 1997-98, our total expenditure on Education will exceed \$45 billion – an increase of 7.7 per cent in real terms over 1996-97.

Basic Education

52. We will devote additional resources to improving basic education. We will, for example :

- provide multi-media computers to all public sector primary schools and set up Information Technology Learning Centres in prevocational and technical schools, at a cost of \$300 million over the next two years;
- ✓ continue to reduce class sizes and to increase the number of graduate teachers in our primary schools;

- convert 26 more primary schools to whole-day schooling; and
- improve the financial assistance to needy students under the Textbook Assistance Scheme.

Tertiary Quality

53. Last October, the University Grants Committee completed a comprehensive review of higher education in Hong Kong. This sets the direction for tertiary education in the future. We agree with the main recommendations in the report.

- We will support our institutions to develop their strengths to become centres of excellence.
- We plan to provide, over the next few years, an additional 11,000 hostel places. This will enable more students to identify with their academic community and participate more in its activities.
- We will increase the number of students from outside Hong Kong. This will help widen the outlook of our own students, enhance their language and interpersonal skills, and inject a healthy element of competition.

Students with Special Education Needs

54. In this quest for quality in our basic and higher education, we must not lose sight of the needs of another group of children who deserve additional support. The Board of Education has made a number of valuable recommendations about what should be done to improve the opportunities for children with special educational needs. We will spend \$30 million in 1997-98 on improvements including the provision of additional staff and increased school grants for the upgrading of facilities and activity programmes in special schools.

Language Skills

55. Last year, I dedicated a special section of the Budget to measures aimed at improving language skills. Such skills are vital to our success as a Special Administrative Region of China, as well as our role as an international centre for business. I believe more needs to be done this year. In 1997-98, we will spend almost \$42 million on raising the standard of language training in our schools by:

- extending the Chinese and English reading schemes to more levels of primary and secondary schooling;
- providing more intensive English courses for Secondary Six and Seven students in Chinese-medium schools;
- establishing a Language Resource Centre to support the classroom teacher; and
- conducting a pilot exercise to establish language benchmarks for teachers. This will raise the language standards and professionalism of teachers, as well as the quality of language teaching and learning in schools.

56. As for our universities, Members will recall that last year we provided \$68 million to raise the language standards of these students. This year we will spend another \$78 million. Our universities can also send a clear signal about the need for higher language standards by only accepting, as a general rule, students who meet the language requirements in their Advanced Level Examinations.

A Well-Trained Workforce

57. In addition to the necessary language skills, we need to intensify our efforts to ensure that we have a workforce well-trained to meet the needs of our changing economy. We have reviewed the role of the Employees Retraining Board and the Vocational Training Council. And we are now mapping out a comprehensive strategy for manpower training and retraining to meet the needs of the 21st century.

58. In the meantime, we have recently injected \$500 million into the Employees Retraining Board to enable it to sustain its retraining programmes to assist local workers to rejoin the labour market and to extend the scheme to cover new immigrants.

A Caring Community

59. Our society has remained loyal to its traditional values. Families do all they can to look after their elderly members, those with a disability or the relative who is sick. These are important values which we must preserve. At the same time, Members of this Council and the vast majority of the people of Hong Kong want this to be a caring community. They want us to provide all the support

necessary for those whose families are unable to care for them or who need help to do so. And we offer them this support through our extensive health and welfare services.

60. On welfare, our record is impressive. We have increased our expenditure on welfare by 88 per cent in real terms over the past five years. It will increase by a further 9.1 per cent in 1997-98 to \$21.2 billion. On health, our spending in 1997-98 will total more than \$28 billion – an increase of 5.7 per cent in real terms over 1996-97.

The Elderly

61. The group for which this Council and the community have expressed the greatest concern is the elderly. We share this concern. That is why, in addition to the financial assistance we provide, we are constantly improving our continuum of care for elderly people. For example, in 1997-98 we will:

- continue to develop our new support network for the elderly by identifying more of those who are vulnerable and more volunteers to reach out to them;
- enhance the general out-patient service for the elderly by increasing the number of doctors and supporting staff ;
- open 30 new social, day care or multi-services centres;
- provide 5 new nursing homes with 1,200 beds for the frail elderly; and
- provide an extra 1,546 residential care places in other facilities.

62. We will also relax, from 1 April this year, the residence requirement for elderly people who retire to Guangdong. They will be able to receive their monthly standard Comprehensive Social Security Assistance (CSSA) payments there. This will, in the words of a Chinese proverb, help those who like falling leaves wish to return to their roots.

Others in Need

63. Other groups also need our support. In 1997-98, we will further expand our services by, for example :

- providing an additional 790 day places and 1,664 residential places for children and adults with a disability;

- ¬ providing 600 places in sheltered workshops or supported employment;
- ¬ providing 3,511 places in day nurseries or creches;
- ¬ providing in-depth training programmes for social workers and other professionals involved in handling child abuse cases; and
- ¬ continuing to provide CSSA to those who need financial help. In 1996-97, we are spending \$7 billion on CSSA – an increase of 35 per cent in real terms over 1995-96 and we expect a further increase of 11 per cent in real terms in 1997-98.

Healthcare

64. Our health service has made huge strides in recent years. But the community expects us to raise the standards of healthcare still further. I have just mentioned the increase in our health spending of 5.7 per cent in real terms in the coming year. In 1997-98, we will for example:

- ¬ provide 669 additional hospital beds (including 126 from the opening this year of the first phase of North District Hospital);
- ¬ provide 57 additional staff for the student health service; and
- ¬ complete 1 new general outpatient clinic and expand 5 others to cater for an extra 90,000 patient consultations a year.

65. We are also undertaking a comprehensive review of our healthcare system. We will explore financing options to see how best to balance the costs of care between the individual and the community as a whole. We will also examine the interfaces between primary and hospital care and between public and private healthcare.

New Arrivals

66. This brief description of our support services would not be complete without mention of one other group. In 1996, around 60,000 new arrivals from the mainland made Hong Kong their new home. I believe that most of them, like generations of immigrants before them, adjust quickly to life here. But as a caring community, we should help them integrate as smoothly as possible.

67. Programmes to help the new arrivals begin the moment they arrive. For example, they are offered general advice and assistance at Hung Hom Railway

Station. They are given information directories, in simplified characters, on the services available to them. We offer special orientation programmes, as well as counselling and referral services. Around 30,000 new arrivals in 1996 benefited. As for the children, we help them fit into our schools with special support services and remedial English programmes. In 1997-98, we will spend a total of around \$168 million on these children – an increase of over 150 per cent in real terms over 1996-97.

Law and Order

68. Hong Kong people need to feel safe as they go about their daily lives. We are fortunate that this is one of the few places in the world where the crime rate has gone down. In 1996, the overall crime rate was 19 per cent lower than that in 1991. And, even more reassuring, the rate of violent crime was 29 per cent lower. This makes us a much safer place to live and work than other major cities like London, New York, Tokyo or Toronto.

69. We need to ensure that our excellent Police Force can continue to provide a secure environment. In 1997-98, we will be putting around 600 additional police officers on front-line operational duties. For example, these extra officers will staff the new police districts at Chek Lap Kok and North Lantau, patrol roads and highways across the territory and strengthen Crime Wing Headquarters. To help officers do their jobs even more efficiently, we will spend nearly \$70 million on computers, enhanced communication systems and new high-speed, anti-smuggling boats.

70. This afternoon, I am only able to touch on the highlights of what we plan to do in the coming financial year. Plans to improve the well-being of our families by upgrading our housing, social service and security programmes. I know that many will tell us that the Government should do more. More for the least well-off and more for the groups most at risk. But I hope I have said enough to demonstrate that this is an Administration which is very conscious of the community's concerns and which will indeed strive to do more.

PUBLIC FINANCES

71. I come now to a review of Hong Kong's public finances. As we enter the run-up to the transition, I am able to report that our financial position is very strong. Our economic prospects are somewhat better than last year. Our fiscal reserves are buoyant. We will start life as a Special Administrative Region in an extremely favourable position.

The 1996-97 Outturn

72. I am now forecasting a surplus for 1996-97 of \$15.1 billion. This is a substantial increase over the \$1.6 billion I originally estimated in my 1996 Budget. Revenue for the year is \$6.6 billion more than originally estimated, while underspending amounts to \$6.9 billion.

Expenditure

73. On the expenditure side, there was an underspending of \$5.5 billion from the Capital Works Reserve Fund. This amounted to 15 per cent of the original Capital Works Reserve Fund estimate. We missed our expenditure targets for capital works projects by \$2 billion; for purchase of premises by \$2 billion; and for land acquisition by \$1.5 billion. The last was because of delays in land resumption and clearance. On purchase of premises, I should explain that the original estimate for 1996-97 included a sum of \$750 million for the purchase of office accommodation for the Legislative Council Secretariat which we had advanced to 1995-96. In addition, we experienced some slippage in identifying suitable premises for welfare facilities. But we shall do our best to catch up in the coming year. If we just look at the delivery of capital works projects, our spending has been much nearer to our original estimate. Total spending on these projects was only about 6 per cent below the original estimate, a considerable improvement over the much higher levels experienced five years ago.

Revenue

74. On the revenue side, we have seen increases in both recurrent and capital revenues for two main reasons.

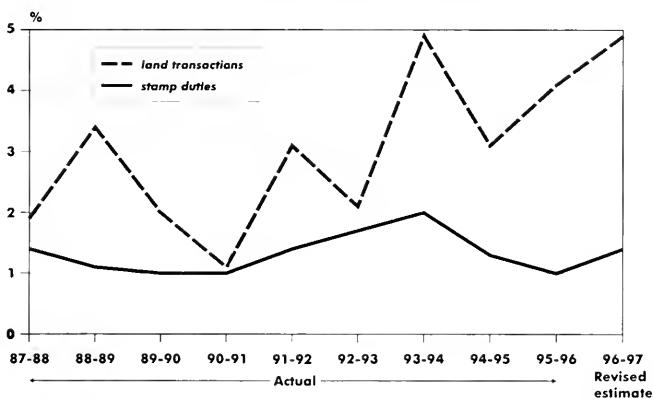
- First, our recurrent receipts are forecast to be \$5.8 billion higher than originally estimated. A sharp rise in activity in both the property and

stock markets led to a surge in receipts from stamp duty in the second half of the year.

- Second, land revenue is likely to be \$1 billion higher than originally forecast. Enthusiasm among developers has risen recently. They are now showing considerable eagerness to finalise premium payments for the redevelopment of sites.

75. While additional revenue is always welcome, these increases come from two particularly volatile sources. It would not be wise for me to anticipate that this boost to our finances would be maintained over the medium term.

Revenue from land transactions (before sharing with the SARG) and stamp duties as % of GDP from 1987-88 to 1996-97



Revenue from land transactions and stamp duties is volatile.

The 1997-98 Estimates

76. In drawing up this year's programme of expenditure we have, as always, followed the budgetary guideline that government expenditure, over time, should grow at a rate no faster than the economy. I have already highlighted some of the major new and improved services which we shall be introducing in 1997-98. When Members examine the detailed draft Estimates of expenditure at the special meetings of Finance Committee, they will see that we are proposing a host of other improvements which are too numerous to mention this afternoon.

77. When account is taken of all additional spending initiatives to be introduced in 1997-98, I estimate that government expenditure (excluding payments from the Capital Investment Fund) will total \$202.2 billion. This is an increase of \$24.5 billion over the revised estimate for 1996-97.

78. After adding forecast payments from the Capital Investment Fund of \$0.8 billion, total expenditure will amount to \$203 billion.

79. On the revenue side, after the various tax and duty changes which I will detail shortly, I am forecasting total receipts in 1997-98 to be \$234.7 billion – an increase of \$32.4 billion over the revised estimate for 1996-97. As I explained in last year's Budget, we can expect a sharp growth in revenue for two reasons. The first is the additional revenue from the collection of rents in accordance with Annex III of the Joint Declaration and Article 121 of the Basic Law. The second arises from the accounting changes to the treatment of income received from land transactions. From 1 July 1997, all such income will be retained by the SAR Government (rather than shared between the Government and the Land Fund).

80. I am forecasting an overall budget surplus for 1997-98 of \$31.7 billion. This is a huge figure, and one which warrants some explanation. To do this, I must refer to the Medium Range Forecast and the forecast of our financial position for the next few years.

Medium Range Forecast

81. I have published the Medium Range Forecast in Appendix A to the printed version of this Speech, covering revenue and expenditure for the next four years. Its objective is to assure this Council and the community that the proposals in today's Budget are affordable not only in the context of the next financial year, but also over the medium term. The projected surplus of nearly \$32 billion is equivalent to almost 16 per cent of forecast expenditure. So today's proposals are clearly affordable. Indeed, in the context of the coming year, they are extremely conservative. However, if we look beyond the next financial year and review the arithmetic for the period 1998-99 to 2000-01, we can see a strong case for caution.

82. These three years should show a combined surplus of \$58.9 billion. However, there is one major omission from the Medium Range Forecast. It does not take into account the substantial contributions that may be needed for the high priority projects under the Railway Development Strategy. The Medium Range Forecast does not cover this item because the precise amount and the

timing of the contributions are not yet clear. However, it would be imprudent of me not to warn this Council of the huge capital investments which may be needed during this period.

83. Over the past three years, 1994-95 to 1996-97, we have contributed \$49 billion to the Airport Authority and to the Mass Transit Railway Corporation to help finance the construction of the airport and the airport railway. The SAR Government may well need to contribute a similar sum between 1998 and 2001 towards the construction of the high priority projects under the Railway Development Strategy.

84. While the various options are still being examined, it would only be prudent to earmark a sum of this magnitude to meet the potential funding for these projects over the forecast period. A contribution of this size would take up virtually all of the surpluses I am forecasting for the period.

85. Against this background, the large surplus forecast for 1997-98 should be viewed as a one-off and is, therefore, misleading. We have to look with caution on 1997-98 as a unique year: falling after the completion of our contributions towards the cost of the airport and the airport railway and before our contributions to the Railway Development Strategy.

86. Earlier this afternoon, I warned of the need to take every precaution in the coming year to keep inflationary pressures under control. With the pick-up in the rate of GDP growth we are forecasting for 1997, it is even more important than usual to stick to our budgetary guidelines and to keep public expenditure under the tightest possible control. From a macroeconomic viewpoint, the exceptional surplus which I am forecasting for the next financial year represents a very fortunate windfall for our efforts to hold back the pressure on prices.

REVENUE PROPOSALS

87. I bring a similar spirit of caution to my revenue proposals. Hong Kong has never had an appetite for dramatic fiscal reforms. A transitional Budget tends to reinforce this sentiment. In addition, our revenue arrangements should conform with the Basic Law. They should support Hong Kong's role as a centre for international business, and they should reflect our commitment to financial prudence and economic autonomy. These considerations set the parameters for

examining possible revenue proposals. The end result is a number of significant tax concessions which I am recommending to this Council for adoption. But let me first set out the areas in which I propose to make no changes.

Areas of No Change

88. In framing my revenue proposals, I have considered carefully all the advice I have received from Members of this Council, as well as the views and suggestions from professional groups, business associations and other bodies. I have been happy to accept some of these proposals. Others I have not been able to endorse, and I should like to explain my thinking on some of the more important ones.

Tax Relief for Housing

89. Some Members have again called for a tax allowance to cover spending on mortgage interest or even rental payments. Some have suggested that we should at least provide some form of tax concession for first-time home buyers. Let me say here that I have considerable sympathy with the family which is investing a substantial part of its monthly income in buying its own home. It is also a government objective to encourage as many families as possible to become home owners. Nevertheless, it would be wrong in principle to create a general tax concession, regardless of the individual family's needs, to cover investment in housing.

90. Any help which the Government provides to promote home ownership should be given specifically to those families which need such assistance. For this reason, we have established the Home Ownership Scheme, the Sandwich Class Housing Scheme and the Private Sector Participation Scheme. These have already helped some 220,000 households to buy their own homes. I believe that these programmes are far more effective than tax relief would be. I also urge Members to look at the way in which home ownership has expanded even in the absence of tax concession for mortgage interest. Between 1991 and 1996, the number of households owning their own home rose by 22 per cent. Today, more than 50 per cent of households own their own home.

91. Although I am not convinced that we should introduce a tax allowance for housing expenditure, I will discuss later one concession which will help to relieve the financial burden on home buyers.

Profits Tax

92. I do not propose to make any changes this year to the level of corporate Profits Tax. By comparison with our competitors in the region, our level of Profits Tax is already very low. We are still highly competitive even when we look at their effective tax rates (that is, the actual tax paid after all tax concessions and deductions have been applied).

93. During my consultations with Members of this Council, I found that views on this subject were mixed. Some Members asked for a reduction. Others asked for an increase. Some even suggested a progressive rate.

94. My personal view is that a case can be made out for a comprehensive review of Profits Tax to examine whether we can make our tax system and business environment even more competitive. This review will proceed next year. We will include in our review the question of depreciation allowances which I referred to in my Budget Speech last year.

Duty Adjustments

95. I turn now to a small number of areas on the revenue side where I propose modest increases. To maintain the real value of the duty charged on fuel, tobacco and methyl alcohol, I propose to raise the duty rate by 6 per cent, in line with the rate of inflation. This will bring in additional revenue of \$430 million in 1997-98 and \$1.9 billion up to 2000-01.

A Dividend for the Community

96. And finally, the part I suspect most people have been waiting for – tax reductions. In drawing up my proposals, I have had to balance two considerations. The first is the need for financial prudence. I am very conscious of our obligation to ensure that the SAR Government is in the strongest possible financial position on 1 July. The second is the case for the people of Hong Kong to enjoy a fiscal dividend from the success they have created.

Salaries Tax

97. I believe that, given our strong financial position, it is right to reduce Salaries Tax once again. I propose the following wide range of concessions.

- ◻ I propose to increase the basic allowance from \$90,000 to \$100,000 and the married person's allowance from \$180,000 to \$200,000. This is an increase of 11.1 per cent, well above the rate of inflation.
- ◻ I propose to increase the allowance for the first and second child by 10.2 per cent, from \$24,500 to \$27,000.
- ◻ I propose to increase the allowance for the third to the ninth child by 12 per cent, from \$12,500 to \$14,000.
- ◻ I propose to increase the basic allowance for dependent parents and for grandparents from \$24,500 to \$27,000 (a rise of 10.2 per cent) and the additional allowance from \$7,000 to \$8,000 (a rise of 14.3 per cent).
- ◻ Last year, I introduced an allowance for dependent brothers and sisters. I propose to increase this by 10.2 per cent, from \$24,500 to \$27,000.
- ◻ I propose to increase the single parent allowance by 66.7 per cent, from \$45,000 to \$75,000.
- ◻ I propose to increase the disabled dependant allowance by 66.7 per cent, from \$15,000 to \$25,000.
- ◻ Last year, I introduced a measure to allow a deduction for taxpayers claiming expenses in respect of fees for training courses attended at approved institutions. I propose to increase the maximum deduction by 66.7 per cent, from \$12,000 to \$20,000 a year.

98. In deciding on these Salaries Tax concessions, I have stuck to the principle of targeting the groups that need them most. In a caring community which respects traditional family values, the tax system should recognise the special difficulties faced by single parents or families caring for relatives, particularly those with a disability. The size of the concession for the training expenses is part of our effort to keep Hong Kong a premier centre for business by encouraging the work force to upgrade its professional and technical qualifications.

99. During my Budget consultations, I received a wide range of proposals on the marginal tax structure from Members and professionals in the accounting and taxation fields. With the healthy revenue position forecast, both for 1997-98 and in the medium term, I agree that there is scope for me to revamp the structure.

This will give added relief to middle-income salaries taxpayers, especially the "sandwich class". In framing my tax concessions, I have been very conscious of the needs of this particular group.

100. Currently, the marginal tax band widths are set at either \$20,000 or \$30,000. I will standardise them at the level of \$30,000. I also propose to rationalise the marginal tax rate by adopting a uniform interval of 6 per cent. This revamping will simplify the structure and make it easier to understand. Let me explain the changes.

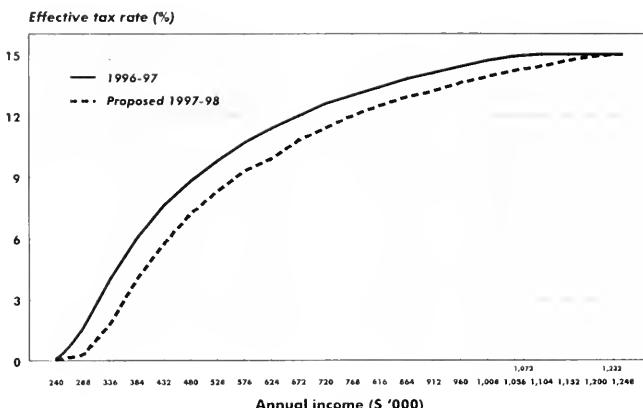
- The first marginal tax band will be widened from \$20,000 to \$30,000, and the marginal tax rate will be kept at the current low level of 2 per cent.
- The width of the second marginal tax band will be maintained at \$30,000, but the marginal tax rate will be reduced from 9 per cent to 8 per cent.
- The width of the third marginal tax band will also be maintained at \$30,000, but the marginal tax rate will be reduced from 17 per cent to 14 per cent.
- The top marginal tax rate will be kept at the current level of 20 per cent.

101. This means a taxpayer with a chargeable income of \$100,000 will pay nearly 25 per cent less tax. The number of salaries taxpayers who have to pay the standard rate of 15 per cent will also decrease.

102. The concessions I propose this afternoon will benefit 96 per cent of our salaries taxpayers. Let me give some concrete examples of how I propose to cut the tax bills for individual employees and their families.

- A single-income family of four, earning \$22,000 a month, will have its tax bill cut by nearly 90 per cent. It will pay less than \$20 a month in tax.
- The typical sandwich-class family, with a monthly income of \$26,000, will pay 68 per cent less tax. It will pay only \$237 a month in tax.
- A married couple with two children will have to earn over \$100,000 a month, or more than \$1.2 million a year, before they pay salaries tax at the standard rate of 15 per cent.

Comparison of the effective tax rates (married couple with two children)



A married couple with two children will have to earn more than \$1,232,000 a year (instead of \$1,072,000 as at present) before paying tax at the standard rate.

103. During last year's Budget debate, some Members expressed concern about the consequences of increasing the basic allowance in real terms, that is, at a higher rate than inflation. They argued that the effect might be to make the tax net too small or the tax base too narrow. I have looked carefully at the statistical evidence on this subject. In each of the last five years, we have raised the basic allowance in real terms. Yet the total number of taxpayers, i.e. the tax net, has remained relatively stable, at around 1.4 million. Similarly, the yield from salaries tax, as a proportion of total revenue, i.e. the tax base, has been reasonably stable over the last five years. The explanation for the stability of our tax net and productivity of our tax base lies in our rapid economic growth. Salaries taxpayers occupy the better-paid jobs and have benefited most from the increasing demand for well-qualified and experienced staff. The result is that while an increase in the basic allowance in real terms removes some taxpayers from the tax net, their disappearance tends to be temporary. As their salaries rise, they return to the tax net. I hope that Members will accept my assurance that today's tax concessions will not undermine the productivity of Salaries Tax as a source of revenue.

104. I estimate that these concessions will cost \$3.1 billion in 1997-98 and \$20 billion up to 2000-01. Full details of the concessions are set out in the Supplement to the printed version of this Speech, together with further examples of their effect on different categories of taxpayer.

Rates

105. I said in my Speech last year that we would be carrying out a routine revaluation of rates during 1996-97, with any changes to take effect on 1 April 1997. The general revaluation has been completed and, based on rental values on 1 July 1996, the overall average increase in rateable values is around 17 per cent. Domestic properties show an average increase of 23 per cent and non-domestic properties an average increase of only 10 per cent for the past three years. The rateable values for approximately 8 per cent of properties will actually decrease or remain unchanged.

106. In formulating my proposals on rates, I have not lost sight of the government rents which some ratepayers will have to pay from July 1997 in accordance with Annex III to the Joint Declaration and Article 121 of the Basic Law. I have also taken into account the financial position of the Urban Council and the Regional Council, their planned programmes of activities and their rates revenue requirements for the next triennium, since their main source of funding comes from rates.

107. I propose that the overall rates percentage charge should be reduced from 5.5 per cent to 5 per cent. This is an historic low. In the Urban Council area, the percentage for Urban Council rates will decrease from 2.8 per cent to 2.6 per cent and that for the general rates from 2.7 per cent to 2.4 per cent. In the Regional Council area, the percentage for Regional Council rates will go down from 4.4 per cent to 4.2 per cent and that for the general rates from 1.1 per cent to 0.8 per cent. The details are set out in the Supplement to the printed version of this Speech.

108. After these adjustments, 28 per cent of ratepayers will pay the same or lower rates. About 59 per cent will face an increase of 20 per cent or less.

109. But there will still be some who will face a relatively large increase in rates even after lowering the overall rates percentage charge. I propose to give these ratepayers some relief by imposing a 20 per cent cap on increases in rates for 1997-98 and for 1998-99. This relief will apply to about 13 per cent of ratepayers in 1997-98. In 1998-99, about 87 per cent of all properties will have no change in rates.

110. The average increase in rates in 1997-98 for a small private flat will be only \$29 per month – an increase of 8.8 per cent. Members will realise that the largest single group of tenants, those living in public rental housing, will not be affected directly by changes in rates. As in the past, the Housing Authority will

absorb the effect of rates increases until the next rent review. In practice, public housing tenants will be little affected because rents are revised only every two years and are fixed on the basis of affordability.

111. As for the business sector, the average rates payment for non-domestic premises will, in overall terms, fall by 3.4 per cent. Industrial premises will enjoy the largest reduction, with an average 17 per cent cut in their rates bill. For offices, the reduction will be a useful 6 per cent on average. Lower rates for business firms are another contribution to ensuring Hong Kong is as user-friendly as possible to business, thus reinforcing our role as an international business centre.

112. The effect on each class of property is shown in the Supplement to the printed version of this Speech.

113. The net effect of my proposals on revenue from general rates is that in 1997-98, it will remain at the 1996-97 level of about \$6.3 billion, whereas the two Councils' rates will increase from \$9.4 billion to \$10.3 billion. The cost of these proposals to general rates is \$1.2 billion in 1997-98 and \$3.4 billion up to the end of the century.

114. In the last Budget Speech, I also raised the possibility of conducting the general revaluation on an annual basis. The objective would be to introduce smaller rises in rates each year instead of a larger rise once every three years. This is a complex issue which we are still studying. Let me assure this Council that we will carefully consider the views of Members and the public before we take any final decision.

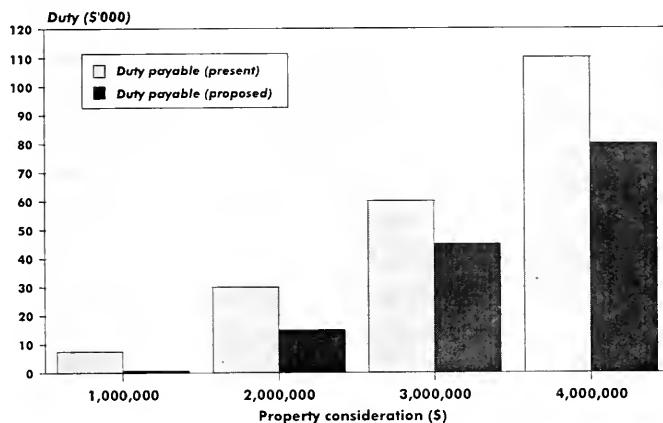
Stamp Duty on Property Transactions

115. Last year, I made adjustments to Stamp Duty on property transactions in order to benefit buyers of lower to medium-value flats, in particular those bought under the Home Ownership and Sandwich Class Housing Schemes. Increases in property prices have eroded this concession since the last Budget. Because of the Government's commitment to encouraging home ownership, I would like to restore the effect of last year's concession. I, therefore, propose to adjust the threshold values for the various Stamp Duty bands to benefit those buying flats with a value of \$4 million or less.

116. As a result of the proposed adjustments, the Stamp Duty paid on a \$2 million flat will be halved, from \$30,000 to \$15,000. I estimate that

about 50,000 property transactions will benefit from the proposal in 1997-98. The concession will cost \$620 million in 1997-98 and \$3 billion up to 2000-01. Details of the new schedule of Stamp Duty rates are set out in the Supplement to the printed version of this Speech.

Stamp duty on selected properties before and after concessions



Stamp duty paid on a \$2 million flat will be halved, from \$30,000 to \$15,000.

Deduction of Foreign Withholding Tax

117. In the past, we took the view that the Inland Revenue Ordinance allowed a deduction for foreign withholding tax on income subject to Hong Kong Profits Tax only for companies which were controlled and managed in Hong Kong. The deduction would not be available to overseas companies operating a branch here. However, a judicial decision has indicated that foreign withholding tax charged on income or turnover is a legitimate expense, which should be deductible in determining assessable profits whatever the residency status of the company concerned. The Inland Revenue Department is following the judicial decision in its practice. Nevertheless, during the Budget consultations, the tax, accounting and banking professions asked that we clarify the law so as to provide certainty. I, therefore, propose to amend the Inland Revenue Ordinance to reflect the judicial decision and the Department's current practice. This will, I hope, offer another inducement to encourage overseas companies to set up branch operations in Hong Kong, thereby strengthening our status as an international financial centre.

Driving Licences

118 We now issue driving licences which are valid for one or three years. Regular renewal is somewhat inconvenient to licence-holders, and those who forget can commit an offence by driving without a valid licence. To make life easier for drivers and, I am happy to say, reduce administrative costs for the Transport Department, I propose to issue driving licences valid for 10 years except for those aged over 60. And since ten years is a long time, the Commissioner for Transport will issue notices to remind people that their licences are due for renewal.

119. I propose to charge \$900 for a 10-year licence. This comprises \$520 for the licence fee, and \$380 for a 10-year levy to the Traffic Accident Victims Assistance Scheme (which currently charges an annual levy of \$38 on driving licence-holders). This is good value for money because a three-year licence currently costs \$864 (comprising \$750 for the licence fee and \$114 for the levy). The cost of this proposal is \$20 million in 1997-98 and \$610 million up to 2000-01.

Scrapping Scheme

120. Last year, I introduced a scheme to encourage people to scrap their old cars on environmental grounds. Since the scheme started in June last year, we have received an average of about 150 applications each month. As I promised in the last Budget, I have reviewed the effects of the scheme. It works and there have been no abuses. I propose to extend it for another twelve months and review it again at the end of the period. To increase the number of cars eligible under the scheme, I will cut the period a person is required to own the car before it is scrapped from two years to one year. And I will reduce the requirement for the car to have been licensed immediately before scrapping from two years to one.

Electric Vehicles

121. In the 1994-95 Budget, we granted First Registration Tax exemption to electric vehicles for a period of three years. Our aim was to make electric vehicles, which do not cause air pollution, more attractive by reducing their initial cost. I propose to extend the concession for another three years with another review at the end of the period.

Estate Duty

122. Last year, I revised the exemption level for Estate Duty to offset the effects of inflation, and I widened the marginal duty bands from \$1 million to \$1.5 million. This year, I propose to increase the level below which no duty is payable from \$6.5 million to \$7 million. Above that level, I propose that Estate Duty be payable at 6 per cent on estates between \$7 million and \$8.5 million; 12 per cent on estates between \$8.5 million and \$10 million; and 18 per cent on estates over \$10 million. The cost of this proposal will be \$12 million in 1997-98 and \$103 million up to 2000-01. Details of the new Schedule of Estate Duty rates are set out in the Supplement to the printed version of this Speech.

Duty on Alcoholic Beverages

123. In my period as Financial Secretary, one issue has plagued me more than most. It comes up on visits overseas, in this Council, at meetings with bankers and businessmen, at dinner parties. Even one of my predecessors, who shall remain nameless, has lobbied me. I am talking, of course, about alcohol duty, particularly that on wine.

124. In March 1994, we introduced a simple *ad valorem* duty system on alcoholic beverages. The system has benefited ordinary consumers by giving them greater choice and cheaper alcohol as importers have had to compete for sales, especially at the lower end of the market. And it is also consistent with our obligations under international trade rules that we should treat local and imported products exactly the same. Thus, there is no valid argument for me to change the system.

125. As the French proverb says, and as those of you who enjoy a glass of wine from time to time will know, it is only the first bottle which seems expensive. Once that has taken effect, so I understand, drinkers worry less about the price. As Financial Secretary, however, I need to be mindful of Hong Kong's status as a centre for trade, finance and tourism. The case has been put to me that our 90 per cent duty on wine is too high and is affecting our tourist industry and our business generally. For this reason, I propose to reduce wine duty from 90 per cent to 60 per cent. This will cost \$110 million in 1997-98 and \$490 million up to 2000-01. I am looking to shops, restaurants and hotels to pass on this duty reduction to their consumers. I shall ask the Consumer Council to monitor the price of wine in restaurants, hotels and other retail outlets to see that they do so.

Implementation

126. The proposed increases in duties on tobacco, fuel and methyl alcohol and the reduction in duty on wine come into immediate effect under a Public Revenue Protection Order issued today. Under similar authority, my proposals on Rates, Estate Duty, Stamp Duty, and First Registration Tax will come into effect on 1 April this year. My proposals on Salaries Tax and Profits Tax will take effect from the year of assessment starting on 1 April 1997, and those on driving licences and the scrapping incentive scheme will be implemented as soon as we have put in place the necessary legislative and administrative measures.

CONCLUSION

127. Mr President, this afternoon I have explained that this Budget had a special task to perform. We needed to show how, in a year of historic change, Hong Kong's economy and public finances could remain strong and healthy. I believe we have done this by :

- reaching consensus in the Budget Expert Group on a through Budget, covering the whole financial year from 1 April 1997 to 31 March 1998;
- ensuring that our public services continue uninterrupted, with improvements to existing services where necessary;
- maintaining the integrity and continuity of our tax system across the transition; and
- drawing up a Budget which strengthens Hong Kong's financial and economic prospects for the future.

128. The Budget has been agreed by the two Sides in the Budget Expert Group and complies with the provisions of the Basic Law. I have pointed out that no fewer than 70 of the 160 Articles in the Basic Law deal with economic issues or are related to economic development. The most important, Article 5, provides that our capitalist system and way of life shall remain unchanged for fifty years. We are committed to our role as an international business centre. We are committed to our policy of financial prudence. We will continue to enjoy full autonomy in economic affairs.

129. The theme of continuity and change has run through my Speech today. I have explained how we will spend :

- over \$32 billion on public housing programmes. We will make a special effort to encourage wider home ownership;
- over \$45 billion on education. In addition to strengthening our basic education, we have developed a package of initiatives to raise standards, particularly in language training;
- over \$28 billion on health care, with 669 additional hospital beds and 5 new nursing homes for the elderly on target for completion by the end of the financial year; and
- over \$21 billion on welfare with a wide range of improvements in services for the elderly, people with a disability and families at risk.

In each of these areas, we have funded the continuation of existing services and found new money to pay for improvements.

130. On Salaries Tax, I have set out to substantially reduce the amount of tax people have to pay, while keeping the number of taxpayers roughly the same. I propose a number of concessions, including :

- an 11 per cent increase in the basic allowance to \$100,000 and the married person's allowance to \$200,000;
- a 10 to 12 per cent increase in the allowances for dependent children;
- increases of between 10 per cent and 14 per cent in the allowances for dependent brothers and sisters, parents and grandparents; and
- increases of over 66 per cent in the single parent allowance, the disabled dependant allowance and the maximum deduction for training expenses.

Truly, this is a package which reinforces our traditional family values.

131. I also propose changes to the marginal tax structure as follows :

- the first \$30,000 chargeable income, currently taxed at 2 per cent and 9 per cent, will all be taxed at the lower rate of 2 per cent;
- the second \$30,000 chargeable income, currently taxed at 9 per cent and 17 per cent, will all be taxed at the reduced rate of 8 per cent; and

- ✓ the third \$30,000 chargeable income, currently taxed at 17 per cent and 20 per cent, will all be taxed at the reduced rate of 14 per cent.

These measures will benefit the sandwich class in particular.

132. A single-income family of four earning \$22,000 a month will pay less than \$20 a month in tax. A typical sandwich-class family of four with a monthly income of \$26,000 will pay only \$237 a month in tax. A married couple with two children will have to earn over \$100,000 per month – more than \$1.2 million per year – before they pay tax at the standard rate of 15 per cent.

133. Altogether the Salaries Tax concessions I have proposed will cost over \$3 billion in 1997-98 and \$20 billion up to 2000-01.

134. In addition, I propose to :

- reduce the rates percentage charge from 5.5 per cent to 5 per cent with a 20 per cent cap for two years;
- reduce Stamp Duty on property transactions with a value not exceeding \$4 million each;
- introduce a new 10-year driving licence for about the same fee as the present 3-year one – that is to reduce the present fee of \$288 a year to \$90 a year;
- reduce the duty on wine from 90 per cent to 60 per cent; and
- raise the exemption level for estate duty and the thresholds for the marginal duty bands.

135. The only increase I propose is to raise the duty on fuel, tobacco and methyl alcohol by 6 per cent in line with inflation.

136. I am able to make these substantial expenditure and revenue proposals because our public finances are robust now and look set to remain so in the future. In addition to the \$15 billion surplus in 1996-97, we will record a further surplus in 1997-98 of nearly \$32 billion. I have explained that this last figure is an exceptional one. The reasons are twofold. First, because of the accounting changes on 1 July 1997 to the treatment of income received from land transactions, there will be additional revenue from this source. Second, the surplus arises in the year in between funding the new airport and airport railway and investing in the Railway Development Strategy.

137. This is a time of great change for us. But it is also a time for us to hold fast to our values. To have faith and confidence in ourselves. To look to what we Hong Kong people can do. We will begin our new life as a Special Administrative Region of the People's Republic of China with total reserves of around \$330 billion (including the Land Fund). We are the premier centre for international business in the region. We are looking forward to faster economic growth in 1997 than in 1996. Our sustained economic growth, our excellent law and order situation and our bright future prospects, mean that we can go on expanding our investment in our infrastructure, our support for business and our housing and social service programmes.

138. Mr President, many in our community, and among our friends around the world, have a major question in their minds at this time. This Budget provides at least a part of the answer : Yes, the future does work.

139. I move that the debate on this motion be now adjourned.

SUPPLEMENT

NOTES ON THE TEXT

	Page
Salaries Tax Concessions	(1) - (23)
Rates Concessions	(24) - (25)
Adjustments to Duty Rates	(26) - (28)
Economic Performance in 1996	(29) - (31)
Economic Prospects for 1997	(32)
Full Text of the Articles of the Basic Law Referred to in the Budget Speech	(33) - (35)

SALARIES TAX CONCESSIONS

Summary of concessions

A. Increase in allowances and deductions

	<i>Present</i> (\$)	<i>Proposed</i> (\$)	<i>Increase</i> (\$)	<i>Increase</i> (%)
Basic Allowances:				
Basic	90,000	100,000	10,000	11.1
Married	180,000	200,000	20,000	11.1
Additional Allowances:				
Child :				
1st to 2nd child	24,500	27,000	2,500	10.2
3rd to 9th child	12,500	14,000	1,500	12.0
Dependent Parent/Grandparent				
Basic	24,500	27,000	2,500	10.2
Additional allowance (for dependant living with taxpayer)	7,000	8,000	1,000	14.3
Dependent Brother/Sister	24,500	27,000	2,500	10.2
Single Parent	45,000	75,000	30,000	66.7
Disabled Dependant	15,000	25,000	10,000	66.7
Additional Deduction:				
Training	12,000	20,000	8,000	66.7

B. Revision of marginal tax bands and rates

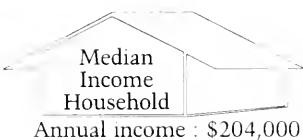
Present		Proposed	
Marginal Tax Band	Marginal Tax Rate (%)	Marginal Tax Band	Marginal Tax Rate (%)
First \$20,000 chargeable income	2	First \$30,000 chargeable income	2
Next \$30,000	9	Next \$30,000	8
Next \$30,000	17	Next \$30,000	14
Remainder	20	Remainder	20

Effect of the revision of the marginal tax bands and rates on tax payable for the first \$100,000 chargeable income

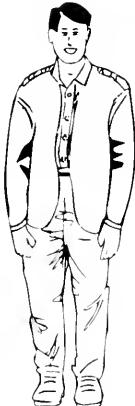
Chargeable income	Present		Proposed		Tax Reduction	
	Rate	Tax	Cumulative	Rate	Tax	Cumulative
			(A) (\$)			(B) (\$)
First \$10,000	2%	200	200	2%	200	200
Next \$10,000	2%	200	400	2%	200	400
Next \$10,000	9%	900	1,300	2%	200	600
Next \$10,000	9%	900	2,200	8%	800	1,400
Next \$10,000	9%	900	3,100	8%	800	2,200
Next \$10,000	17%	1,700	4,800	8%	800	3,000
Next \$10,000	17%	1,700	6,500	14%	1,400	4,400
Next \$10,000	17%	1,700	8,200	14%	1,400	5,800
Next \$10,000	20%	2,000	10,200	14%	1,400	7,200
Next \$10,000	20%	2,000	12,200	20%	2,000	9,200
\$100,000						

Salaries tax rates and allowances

What you save !



Single person

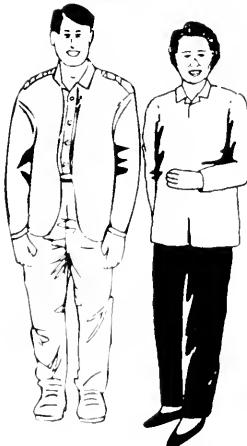


33%
saving!

Present tax : \$15,000
Proposed tax : \$10,000
Saving : \$5,000 (33%)

Single person with a dependent parent living with the taxpayer

51%
saving!



Present tax : \$8,700
Proposed tax : \$4,260
Saving : \$4,440 (51%)

What you save !

Median
Income
Household
Annual income : \$204,000

Single person with 2 dependent parents living with the taxpayer and a dependent brother/sister still receiving full-time education



86%
saving!

Present tax : \$985
Proposed tax : \$140
Saving : \$845 (86%)

Single person with 2 dependent parents living with the taxpayer and having incurred an expense of \$20,000 in 1997-98 in attending a training course at an approved institution

87%
saving!



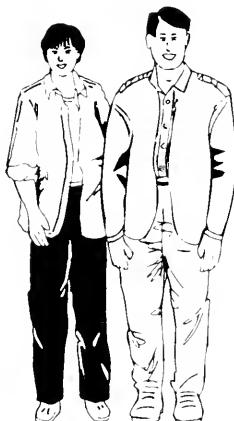
Present tax : \$2,110
Proposed tax : \$280
Saving : \$1,830 (87%)

What you save !

Median
Income
Household
Annual income : \$204,000

Married couple with no children

89%
saving!



Present tax : \$760
Proposed tax : \$80
Saving : \$680 (89%)

Married couple with 2 children

Still no tax!



Present tax \$0
Proposed tax \$0
Saving : \$0

What you save !

Median
Income
Household
Annual income : \$204,000

Single parent with 2 children

No tax now!



Present tax :	\$400
Proposed tax :	\$0
Saving :	\$400 (100%)

Salaries tax rates and allowances What you save !

Sandwich
Class
Household

Annual income : \$312,000

Single person

14%
saving



Present tax : \$36,600
Proposed tax : \$31,600
Saving : \$5,000 (14%)

Single person with a dependent parent living with the taxpayer

19%
saving



Present tax : \$30,300
Proposed tax : \$24,600
Saving : \$5,700 (19%)

What you save !

Sandwich
Class
Household

Annual income : \$312,000

Married couple with no children

38%
saving!



Present tax : \$18,600
Proposed tax : \$11,600
Saving : \$7,000 (38%)

Married couple with 2 children

68%
saving!



Present tax \$8,800
Proposed tax \$2,840
Saving : \$5,960 (68%)

What you save !

Sandwich
Class
Household
Annual income : \$312,000

Married couple with 2 children and 1 disabled dependent parent living with the taxpayer

No tax now!



Present tax \$1,885
Proposed tax. \$0
Saving: \$1,885 (100%)

Married couple with 1 child, 1 disabled dependent brother/sister and 1 dependent parent living with the taxpayer

No tax now!



Present tax \$1,885
Proposed tax. \$0
Saving: \$1,885 (100%)

What you save !

Sandwich
Class
Household
Annual income : \$312,000

Married couple with 1 child, 1 dependent parent living with the taxpayer who has also incurred an expense of \$20,000 in 1997-98 in attending a training course at an approved institution



Single parent with 2 children



**Annual income levels below which
no salaries tax is payable**

	<i>Present</i> (\$)	<i>Proposed</i> (\$)	%
No dependent parent / grandparent			
Single	90,001	100,001	+11.1
Married	180,001	200,001	+11.1
Married + 1 child	204,501	227,001	+11.0
Married + 2 children	229,001	254,001	+10.9
Married + 3 children	241,501	268,001	+11.0
Including two dependent parents / grandparents			
Single	139,001	154,001	+10.8
Married	229,001	254,001	+10.9
Married + 1 child	253,501	281,001	+10.8
Married + 2 children	278,001	308,001	+10.8
Married + 3 children	290,501	322,001	+10.8
Including two dependent parents / grandparents both living with the taxpayer			
Single	153,001	170,001	+11.1
Married	243,001	270,001	+11.1
Married + 1 child	267,501	297,001	+11.0
Married + 2 children	292,001	324,001	+11.0
Married + 3 children	304,501	338,001	+11.0
Including one dependent parent / grandparent and having incurred an expense of \$20,000 in 1997-98 in attending a training course at an approved institution			
Single	126,501	147,001	+16.2
Married	216,501	247,001	+14.1
Married + 1 child	241,001	274,001	+13.7
Married + 2 children	265,501	301,001	+13.4
Married + 3 children	278,001	315,001	+13.3
Including one dependent parent / grandparent living with the taxpayer and one disabled dependent brother / sister			
Single	161,001	187,001	+16.1
Married	251,001	287,001	+14.3
Married + 1 child	275,501	314,001	+14.0
Married + 2 children	300,001	341,001	+13.7
Married + 3 children	312,501	355,001	+13.6
Single parent with			
1 child	159,501	202,001	+26.6
2 children	184,001	229,001	+24.5
3 children	196,501	243,001	+23.7

**Annual income levels at which salaries
taxpayers enter the standard rate zone**

	<i>Present</i> (\$)	<i>Proposed</i> (\$)	%
No dependent parent / grandparent			
Single	516,000	616,000	+19.4
Married	876,000	1,016,000	+16.0
Married + 1 child	974,000	1,124,000	+15.4
Married + 2 children	1,072,000	1,232,000	+14.9
Married + 3 children	1,122,000	1,288,000	+14.8
Including two dependent parents / grandparents			
Single	712,000	832,000	+16.9
Married	1,072,000	1,232,000	+14.9
Married + 1 child	1,170,000	1,340,000	+14.5
Married + 2 children	1,268,000	1,448,000	+14.2
Married + 3 children	1,318,000	1,504,000	+14.1
Including two dependent parents / grandparents both living with the taxpayer			
Single	768,000	896,000	+16.7
Married	1,128,000	1,296,000	+14.9
Married + 1 child	1,226,000	1,404,000	+14.5
Married + 2 children	1,324,000	1,512,000	+14.2
Married + 3 children	1,374,000	1,568,000	+14.1
Including one dependent parent / grandparent living with the taxpayer and one disabled dependent brother / sister			
Single	800,000	964,000	+20.5
Married	1,160,000	1,364,000	+17.6
Married + 1 child	1,258,000	1,472,000	+17.0
Married + 2 children	1,356,000	1,580,000	+16.5
Married + 3 children	1,406,000	1,636,000	+16.4
Single parent with			
1 child	794,000	1,024,000	+29.0
2 children	892,000	1,132,000	+26.9
3 children	942,000	1,188,000	+26.1

Effect of the increase in allowances and the revision of the marginal tax bands and rates

Single person

Annual income	Present tax payable (Exemption level: \$90,000)			Proposed tax payable (Exemption level: \$100,000)			Tax Saving (A) - (B)	Remarks
	Amount (A)	Effective rate (%)	Amount (B)	Effective rate (%)	Amount (C)	Effective rate (%)		
\$96,000	120	0.1	-	-	-	-	120	100.0
108,000	360	0.3	160	0.4	200	0.5	55.6	
120,000	1,300	1.1	400	0.3	900	0.9	69.2	
132,000	2,380	1.8	760	0.6	1,620	1.6	68.1	
144,000	3,780	2.6	1,720	1.2	2,060	2.060	54.5	
156,000	5,820	3.7	2,680	1.7	3,140	3.140	54.0	
168,000	7,860	4.7	4,120	2.5	3,740	3.740	47.6	
180,000	10,200	5.7	5,800	3.2	4,400	4.400	43.1	
192,000	12,600	6.6	7,600	4.0	5,000	5.000	39.7	
(1)	204,000	15,000	7.4	10,900	4.9	5,000	5,000	33.3
	216,000	17,400	8.1	12,400	5.7	5,000	5,000	28.7
	228,000	19,800	8.7	14,800	6.5	5,000	5,000	25.3
	240,000	22,200	9.3	17,200	7.2	5,000	5,000	22.5
	254,000	27,000	10.2	22,000	8.3	5,000	5,000	18.5
	288,000	31,800	11.0	26,800	9.3	5,000	5,000	15.7
(2)	312,000	36,600	11.7	31,600	10.1	5,000	5,000	13.7
	336,000	41,400	12.3	36,400	10.8	5,000	5,000	12.1
	360,000	46,200	12.8	41,200	11.4	5,000	5,000	10.8
	384,000	51,000	13.3	46,000	12.0	5,000	5,000	9.8
	408,000	55,800	13.7	50,800	12.5	5,000	5,000	9.0
	432,000	60,600	14.0	55,600	12.9	5,000	5,000	8.3
	456,000	65,400	14.3	60,400	13.2	5,000	5,000	7.6
	480,000	70,200	14.6	65,200	13.6	5,000	5,000	7.1
	504,000	75,000	14.9	70,000	13.9	5,000	5,000	6.7
(3)	516,000	77,400	15.0	72,400	14.0	5,000	5,000	6.5
	528,000	79,200	15.0	74,800	14.2	4,400	4,400	5.6
(4)	616,000	92,400	15.0	92,400	15.0	-	-	
	624,000	93,600	15.0	93,600	15.0	-	-	

(1) Median income household

(2) Sandwich class household

(3) Income level at which salaries taxpayers enter the standard rate zone at present.

(4) Income level at which salaries taxpayers enter the standard rate zone after the 1997-98 Budget.

Effect of the increase in allowances and the revision of the marginal tax bands and rates

Single person, with two dependent parents / grandparents

Annual income	Amount (A)	Present tax payable (Exemption level: \$139,000)		Proposed tax payable (Exemption level: \$154,000)		Tax Saving (A) - (B)	Remarks
		Effective rate	Amount (B)	Effective rate	Amount (B)		
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
144,000	100	0.1	-	-	100	100.0	
							All taxpayers earning less than \$832,000 will benefit from the concessions
156,000	340	0.2	40	<0.1	300	88.2	
168,000	1,210	0.7	280	0.2	930	76.9	
180,000	2,290	1.3	520	0.3	1,770	77.3	
192,000	3,610	1.9	1,240	0.6	2,370	65.7	
(1) 204,000	5,650	2.8	2,200	1.1	3,450	61.1	
216,000	7,690	3.6	3,280	1.5	4,410	57.3	
228,000	10,000	4.4	4,960	2.2	5,040	50.4	
240,000	12,400	5.2	6,640	2.8	5,760	46.5	
264,000	17,200	6.5	11,200	4.2	6,000	34.9	
288,000	22,000	7.6	16,900	5.6	6,000	27.3	
(2) 312,000	26,800	8.6	20,800	6.7	6,000	22.4	
336,000	31,600	9.4	25,600	7.6	6,000	19.0	
360,000	36,400	10.1	30,400	8.4	6,000	16.5	
384,000	41,200	10.7	35,200	9.2	6,000	14.6	
408,000	46,000	11.3	40,000	9.8	6,000	13.0	
432,000	50,800	11.8	44,800	10.4	6,000	11.8	
456,000	55,600	12.2	49,600	10.9	6,000	10.8	
480,000	60,400	12.6	54,400	11.3	6,000	9.9	
504,000	65,200	12.9	59,200	11.7	6,000	9.2	
528,000	70,000	13.3	64,000	12.1	6,000	8.6	
552,000	74,800	13.6	68,800	12.5	6,000	8.0	
576,000	79,600	13.8	73,600	12.8	6,000	7.5	
600,000	84,400	14.1	78,400	13.1	6,000	7.1	
648,000	94,000	14.5	88,000	13.6	6,000	6.4	
696,000	103,600	14.9	97,600	14.0	6,000	5.8	
(3) 712,000	106,800	15.0	100,800	14.2	6,000	5.6	
744,000	111,600	15.0	107,200	14.4	4,400	3.9	
(4) 832,000	124,800	15.0	124,800	15.0	-	-	Taxpayers earning \$832,000 or more will pay tax at the standard rate.
840,000	126,000	15.0	126,000	15.0	-	-	

(1) Median income household

(2) Sandwich class household

(3) Income level at which salaries taxpayers enter the standard rate zone at present.

(4) Income level at which salaries taxpayers enter the standard rate zone after the 1997-98 Budget.

Effect of the increase in allowances and the revision of the marginal tax bands and rates

Single person, with one dependent parent / grandparent living with the taxpayer and one disabled dependent brother / sister

Annual income	Present tax payable (Exemption level: \$161,000)		Proposed tax payable (Exemption level: \$187,000)		Tax Saving (A) - (B)	Remarks
	Amount (A)	Effective rate (%)	Amount (B)	Effective rate (%)		
(\$)	(\$)	(\$)	(\$)	(\$)	(%)	
168,000	140	0.1	-	-	140	100.0
180,000	180	0.2	-	-	380	100.0
(1)	192,000	1.390	100	0.1	1,290	92.8
204,000	2,470	1.2	340	0.2	2,130	86.2
216,000	3,950	1.8	580	0.3	3,370	85.3
228,000	5,990	2.6	1,480	0.6	4,510	75.3
240,000	8,030	3.3	2,440	1.0	5,590	69.6
264,000	12,800	4.8	5,380	2.0	7,420	58.0
288,000	17,600	6.1	9,400	3.3	8,200	46.6
(2)	312,000	22,400	7.2	14,200	4.6	8,200
336,000	27,200	8.1	19,000	5.7	8,200	30.1
360,000	32,000	8.9	23,800	6.6	8,200	25.6
384,000	36,800	9.6	28,600	7.4	8,200	22.3
408,000	41,600	10.2	33,400	8.2	8,200	19.7
432,000	46,400	10.7	38,200	8.8	8,200	17.7
456,000	51,200	11.2	43,000	9.4	8,200	16.0
480,000	56,000	11.7	47,800	10.0	8,200	14.6
504,000	60,800	12.1	52,600	10.4	8,200	13.5
528,000	65,600	12.4	57,400	10.9	8,200	12.5
552,000	70,400	12.8	62,200	11.3	8,200	11.6
576,000	75,200	13.1	67,000	11.6	8,200	10.9
600,000	80,000	13.3	71,800	12.0	8,200	10.3
648,000	89,600	13.8	81,400	12.6	8,200	9.2
696,000	99,200	14.3	91,000	13.1	8,200	8.3
744,000	108,800	14.6	100,600	13.5	8,200	7.5
792,000	118,400	14.9	110,200	13.9	8,200	6.9
(3)	800,000	120,000	15.0	111,800	14.0	8,200
840,000	126,000	15.0	119,800	14.3	6,200	4.9
(4)	964,000	144,600	15.0	144,600	15.0	-
984,000	147,600	15.0	147,600	15.0	-	-

(1) Median income household

(2) Sandwich class household

(3) Income level at which salaries taxpayers enter the standard rate zone at present

(4) Income level at which salaries taxpayers enter the standard rate zone after the 1997-98 Budget

Effect of the increase in allowances and the revision of the marginal tax bands and rates

Married couple, with no children

Annual income	Present tax payable (Exemption level: \$180,000)		Proposed tax payable (Exemption level: \$200,000)		Tax Saving (A) - (B)	Remarks
	Amount (A)	Effective rate (%)	Amount (B)	Effective rate (%)		
(\$)	(\$)	(\$)	(\$)	(\$)	(%)	
192,000	240	0.1	-	-	240	100.0
(1)	204,000	760	0.4	80	<0.1	89.5
216,000	1,840	0.9	320	0.1	1,520	82.6
228,000	2,920	1.3	560	0.2	2,360	80.8
240,000	4,800	2.0	1,400	0.6	3,400	70.8
264,000	9,000	3.4	3,560	1.3	5,440	60.4
288,000	13,800	4.8	6,920	2.4	6,880	49.9
(2)	312,000	18,600	6.0	11,600	3.7	7,000
336,000	23,400	7.0	16,400	4.9	7,000	37.6
360,000	28,200	7.8	21,200	5.9	7,000	29.9
384,000	33,000	8.6	26,000	6.8	7,000	24.8
408,000	37,800	9.3	30,800	7.5	7,000	21.2
432,000	42,600	9.9	35,600	8.2	7,000	18.5
456,000	47,400	10.4	40,400	8.9	7,000	16.4
480,000	52,200	10.9	45,200	9.4	7,000	14.8
504,000	57,000	11.3	50,000	9.9	7,000	13.4
528,000	61,800	11.7	54,800	10.4	7,000	12.3
552,000	66,600	12.1	59,600	10.8	7,000	11.3
576,000	71,400	12.4	64,400	11.2	7,000	10.5
600,000	76,200	12.7	69,200	11.5	7,000	9.8
648,000	85,800	13.2	78,800	12.2	7,000	9.2
696,000	95,400	13.7	88,400	12.7	7,000	8.2
744,000	105,000	14.1	98,000	13.2	7,000	7.3
792,000	114,600	14.5	107,600	13.6	7,000	6.7
840,000	124,200	14.8	117,200	14.0	7,000	6.1
(3)	876,000	131,400	15.0	124,400	14.2	7,000
936,000	140,400	15.0	136,400	14.6	4,000	5.3
(4)	1,016,000	152,400	15.0	152,400	15.0	-
1,032,000	154,800	15.0	154,800	15.0	-	-

- (1) Median income household
- (2) Sandwich class household
- (3) Income level at which salaries taxpayers enter the standard rate zone at present
- (4) Income level at which salaries taxpayers enter the standard rate zone after the 1997-98 Budget

Effect of the increase in allowances and the revision of the marginal tax bands and rates

Married couple, with two children

Annual income	Present tax payable (Exemption level: \$229,000)			Proposed tax payable (Exemption level: \$254,000)			Tax Saving (A) - (B)	Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(\$)	(%)		
(\$)	(\$)	(%)	(\$)	(\$)	(%)	(\$)	(%)	
240,000	220	0.1	-	-	-	-	220	100.0
(1)	264,000	1,750	0.7	200	0.1	1,550	88.6	All taxpayers earning less than \$1,232,000 will benefit from the concessions.
	288,000	4,630	1.6	920	0.3	3,710	80.1	
	312,000	8,800	2.8	2,840	0.9	5,960	67.7	
	336,000	13,600	4.0	-	-	-	-	
	360,000	18,400	5.1	6,080	1.8	7,520	55.3	
	384,000	23,200	6.0	10,400	2.9	8,000	43.5	
	408,000	28,000	6.9	15,200	4.0	8,000	34.5	
	432,000	32,800	7.6	20,000	4.9	8,000	28.6	
	456,000	37,600	8.2	24,800	5.7	8,000	24.4	
	480,000	42,400	8.8	29,600	6.5	8,000	21.3	
	504,000	47,200	9.4	34,400	7.2	8,000	18.9	
	528,000	52,000	9.8	39,200	7.8	8,000	16.9	
	552,000	56,800	10.3	44,000	8.3	8,000	15.4	
	576,000	61,600	10.7	48,800	8.8	8,000	14.1	
	600,000	66,400	11.1	53,600	9.3	8,000	13.0	
	648,000	76,000	11.7	58,400	9.7	8,000	12.0	
	696,000	85,600	12.3	63,200	10.5	8,000	10.5	
	744,000	95,200	12.8	68,000	11.1	8,000	9.3	
	792,000	104,800	13.2	72,800	11.7	8,000	8.4	
	840,000	114,400	13.6	76,600	12.2	8,000	7.6	
	888,000	124,000	14.0	80,400	12.7	8,000	7.0	
	936,000	133,600	14.3	84,200	13.1	8,000	6.5	
	984,000	143,200	14.6	88,000	13.4	8,000	6.0	
	1,032,000	152,800	14.8	91,800	13.7	8,000	5.6	
(2)	1,072,000	160,800	15.0	95,600	14.0	8,000	5.2	
	1,080,000	162,000	15.0	100,400	14.3	8,000	5.0	
	1,232,000	184,800	15.0	124,800	15.0	7,600	4.7	
	1,272,000	190,800	15.0	130,800	15.0	-	-	
								Taxpayers earning \$1,232,000 or more will pay tax at the standard rate.

(1) Sandwich class household

(2) Income level at which salaries taxpayers enter the standard rate zone at present.

(3) Income level at which salaries taxpayers enter the standard rate zone after the 1997-98 Budget.

Effect of the increase in allowances and the revision of the marginal tax bands and rates

Married couple, with three children

Annual income	Present tax payable (Exemption level: \$241,500)	Proposed tax payable (Exemption level: \$268,000)		Tax Saving (A) - (B)	Remarks	
		Effective rate	Amount			
(\\$)	(\\$)	(%)	(\\$)	(%)		
264,000	625	0.2	-	625	100.0	
(1)	288,000	2,785	1.0	400	0.1	
312,000	6,585	2.1	1,720	0.6	2,385	
336,000	11,100	3.3	4,120	1.2	4,865	
360,000	15,900	4.4	7,600	2.1	6,980	
384,000	20,700	5.4	12,400	3.2	8,300	
408,000	25,500	6.3	17,200	4.2	8,300	
432,000	30,300	7.0	22,000	5.1	8,300	
456,000	35,100	7.7	26,800	5.9	8,300	
480,000	39,900	8.3	31,600	6.6	8,300	
504,000	44,700	8.9	36,400	7.2	8,300	
528,000	49,500	9.4	41,200	7.8	8,300	
552,000	54,300	9.8	46,000	8.3	8,300	
576,000	59,100	10.3	50,800	8.8	8,300	
600,000	63,900	10.7	55,600	9.3	8,300	
648,000	73,500	11.3	65,200	10.1	8,300	
696,000	83,100	11.9	74,800	10.7	8,300	
744,000	92,700	12.5	84,400	11.3	8,300	
792,000	102,300	12.9	94,000	11.9	8,300	
840,000	111,900	13.3	103,600	12.3	8,300	
888,000	121,500	13.7	113,200	12.7	8,300	
936,000	131,100	14.0	122,800	13.1	8,300	
984,000	140,700	14.3	132,400	13.5	8,300	
1,032,000	150,300	14.6	142,000	13.8	8,300	
1,080,000	159,900	14.8	151,600	14.0	8,300	
(2)	1,122,000	168,300	15.0	160,000	14.3	8,300
1,176,000	176,400	15.0	170,800	14.5	5,600	
(3)	1,288,000	193,200	15.0	193,200	15.0	-
1,320,000	198,000	15.0	198,000	15.0	-	

(1) Sandwich class household

(2) Income level at which salaries taxpayers enter the standard rate zone at present.

(3) Income level at which salaries taxpayers enter the standard rate zone after the 1997-98 Budget.

Effect of the increase in allowances and the revision of the marginal tax bands and rates

Married couple, with two children and two dependent parents / grandparents

Annual income	Amount	Present tax payable (Exemption level: \$278,000)			Proposed tax payable (Exemption level: \$308,000)			Tax Saving (A) - (B)	Remarks
		(\$)	(%)	Effective rate	Amount (B)	(\$)	(%)		
288,000	200	0.1	-	-	-	200	100.0		
(1)	312,000	1,660	0.5	80	<0.1	1,580	95.2		
	336,000	4,360	1.3	560	0.2	3,900	87.4		
	360,000	8,000	2.4	2,360	0.7	6,240	72.6		
	384,000	13,400	3.5	5,240	1.4	8,160	60.9		
	408,000	18,200	4.5	9,200	2.3	9,000	49.5		
	432,000	23,000	5.3	14,000	3.2	9,000	39.1		
	456,000	27,800	6.1	18,800	4.1	9,000	32.4		
	480,000	32,600	6.8	23,600	4.9	9,000	27.6		
	504,000	37,400	7.4	28,400	5.6	9,000	24.1		
	528,000	42,200	8.0	33,200	6.3	9,000	21.3		
	552,000	47,000	8.5	38,000	6.9	9,000	19.1		
	576,000	51,800	9.0	42,800	7.4	9,000	17.4		
	600,000	56,600	9.4	47,600	7.9	9,000	15.9		
	624,000	60,400	10.2	52,400	8.8	9,000	13.6		
	648,000	65,200	10.9	56,800	9.6	9,000	11.9		
	672,000	75,800	11.5	76,400	10.3	9,000	10.5		
	696,000	85,400	12.0	86,000	10.9	9,000	9.5		
	720,000	95,000	12.5	95,600	11.4	9,000	8.6		
	744,000	104,600	12.5	105,200	11.8	9,000	7.9		
	768,000	114,200	12.9	114,800	12.3	9,000	7.3		
	792,000	123,800	13.2	124,400	12.6	9,000	6.7		
	816,000	133,400	13.6	134,000	13.0	9,000	6.3		
	840,000	143,000	13.9	134,000	13.0	9,000	5.9		
	864,000	152,600	14.1	143,600	13.3	9,000	5.5		
	888,000	162,200	14.4	153,200	13.6	9,000	5.2		
	912,000	171,800	14.6	162,800	13.8	9,000	4.7		
	936,000	190,200	15.0	181,200	14.3	9,000	3.2		
	960,000	198,000	15.0	191,600	14.5	6,400			
(2)	1,320,000	217,200	15.0	217,200	15.0	-	-		
(3)	1,448,000	217,200	15.0	219,600	15.0	-	-		
	1,464,000	219,600	15.0	219,600	15.0	-	-		

(1) Sandwich class household

(2) Income level at which salaried taxpayers enter the standard rate zone at present.

(3) Income level at which salaried taxpayers enter the standard rate zone after the 1997-98 Budget.

Effect of the increase in allowances and the revision of the marginal tax bands and rates

Married couple, with two children and two dependent parents / grandparents living with the taxpayer

Annual income	Present tax payable (Exemption level: \$292,000) (Exemption level: \$324,000)			Proposed tax payable Effective rate			Tax Saving (A) - (B)	Remarks
	Amount (A)	Effective rate (%)	Amount (B)	(\$)	(%)	(\$)		
(1) 312,000	400	0.1	-	-	-	400	100.0	All taxpayers earning less than \$1,512,000 will benefit from the concessions.
336,000	2,560	0.8	240	0.1	0.3	2,320	90.6	Taxpayers with incomes not exceeding \$324,000 will not be required to pay tax as a result of the increases in the married person's, the child, the dependent parent / grandparent and the additional dependent parent / grandparent allowances.
360,000	6,160	1.7	1,080	0.3	5,080	82.5		
384,000	10,600	2.8	3,000	0.8	7,600	71.7		
408,000	15,400	3.8	6,360	1.6	9,040	58.7		
432,000	20,200	4.7	10,800	2.5	9,400	46.5		
456,000	25,000	5.5	15,600	3.4	9,400	37.6		
480,000	29,800	6.2	20,400	4.3	9,400	31.5		
504,000	34,600	6.9	25,200	5.0	9,400	27.2		
528,000	39,400	7.5	30,000	5.7	9,400	23.9		
552,000	44,200	8.0	34,800	6.3	9,400	21.3		
576,000	49,000	8.5	39,600	6.9	9,400	19.2		
600,000	53,800	9.0	44,400	7.4	9,400	17.5		
648,000	63,400	9.8	54,000	8.3	9,400	14.8		
696,000	73,000	10.5	63,600	9.1	9,400	12.9		
744,000	82,600	11.1	73,200	9.8	9,400	11.4		
792,000	92,200	11.6	82,800	10.5	9,400	10.2		
840,000	101,800	12.1	92,400	11.0	9,400	9.2		
888,000	111,400	12.5	102,000	11.5	9,400	8.4		
936,000	121,000	12.9	111,600	11.9	9,400	7.8		
984,000	130,600	13.3	121,200	12.3	9,400	7.2		
1,032,000	140,200	13.6	130,800	12.7	9,400	6.7		
1,080,000	149,800	13.9	140,400	13.0	9,400	6.3		
1,128,000	159,400	14.1	150,000	13.3	9,400	5.9		
1,176,000	169,000	14.4	159,600	13.6	9,400	5.6		
1,224,000	178,600	14.6	169,200	13.8	9,400	5.3		
1,272,000	188,200	14.8	178,800	14.1	9,400	5.0		
(2) 1,324,000	198,600	15.0	189,200	14.3	9,400	4.7		
1,368,000	205,200	15.0	198,000	14.5	7,200	3.5		
(3) 1,512,000	226,800	15.0	226,800	15.0	-	-		Taxpayers earning \$1,512,000 or more will pay tax at the standard rate.
1,560,000	234,000	15.0	234,000	15.0	-	-		

(1) Sandwich class household

(2) Income level at which salaries taxpayers enter the standard rate zone at present.

(3) Income level at which salaries taxpayers enter the standard rate zone after the 1997-98 Budget.

Effect of the increase in allowances and the revision of the marginal tax bands and rates

Married couple, with two children and one disabled dependent parent / grandparent living with the taxpayer

Annual income	Amount (A)	Present tax payable (Exemption level: \$275,500)			Proposed tax payable (Exemption level: \$314,000)			Tax Saving (A) - (B)	Remarks
		Effective rate	Amount (B)	(\$)	(%)	Effective rate	Amount (B)	(\$)	(%)
288,000	250	0.1	-	-	-	-	250	100.0	All taxpayers earning less than \$1,472,000 will benefit from the concessions.
312,000	1,885	0.6	-	-	-	-	1,885	100.0	Taxpayers with incomes not exceeding \$314,000 will not be required to pay tax as a result of the increases in the married person's, the child, the disabled dependent, the dependent parent / grandparent and the additional dependent parent / grandparent allowances.
336,000	4,885	1.5	440	0.1	4,445	91.0	-	-	
384,000	13,905	3.6	4,400	1.1	9,500	68.3	-	-	
408,000	18,700	4.6	8,000	2.0	10,700	57.2	-	-	
432,000	23,500	5.4	12,800	3.0	10,700	45.5	-	-	
456,000	28,300	6.2	17,600	3.9	10,700	37.8	-	-	
480,000	33,100	6.9	22,400	4.7	10,700	32.3	-	-	
504,000	37,900	7.5	27,200	5.4	10,700	28.2	-	-	
528,000	42,700	8.1	32,000	6.1	10,700	25.1	-	-	
552,000	47,500	8.6	36,800	6.7	10,700	22.5	-	-	
576,000	52,300	9.1	41,600	7.2	10,700	20.5	-	-	
600,000	57,100	9.5	46,400	7.7	10,700	18.7	-	-	
648,000	66,700	10.3	56,000	8.6	10,700	16.0	-	-	
696,000	76,300	11.0	65,600	9.4	10,700	14.0	-	-	
744,000	85,900	11.5	75,200	10.1	10,700	12.5	-	-	
792,000	95,500	12.1	84,800	10.7	10,700	11.2	-	-	
840,000	105,100	12.5	94,400	11.2	10,700	10.2	-	-	
888,000	114,700	12.9	104,000	11.7	10,700	9.3	-	-	
936,000	124,300	13.3	113,600	12.1	10,700	8.6	-	-	
984,000	133,900	13.6	123,200	12.5	10,700	8.0	-	-	
1,032,000	143,500	13.9	132,800	12.9	10,700	7.5	-	-	
1,080,000	153,100	14.2	142,400	13.2	10,700	7.0	-	-	
1,128,000	162,700	14.4	152,000	13.5	10,700	6.6	-	-	
1,176,000	172,300	14.7	161,600	13.7	10,700	6.2	-	-	
1,224,000	181,900	14.9	171,200	14.0	10,700	5.9	-	-	
(2)	1,256,000	188,700	15.0	178,000	14.1	10,700	5.7	-	
	1,272,000	190,800	15.0	180,800	14.2	10,000	5.2	-	
(3)	1,472,000	220,800	15.0	220,800	15.0	-	-	Taxpayers earning \$1,472,000 or more will pay tax at the standard rate.	
	1,512,000	226,800	15.0	226,800	15.0	-	-		

(1) Sandwich class household

(2) Income level at which salaries taxpayers enter the standard rate zone at present.

(3) Income level at which salaries taxpayers enter the standard rate zone after the 1997-98 Budget.

Effect of the increase in allowances and the revision of the marginal tax bands and rates

Single parent, with two children

Annual income	Amount (A)	Present tax payable (Exemption level: \$184,000)		Proposed tax payable (Exemption level: \$229,000)		Tax Saving (A) - (B)	Remarks
		Effective rate	Amount (B)	Effective rate	(\$)		
192,000	160	0.1	-	-	-	160	All taxpayers earning less than \$1,132,000 will benefit from the concessions.
(1) 204,000	400	0.2	-	-	-	400	Taxpayers with incomes not exceeding \$229,000 will not be required to pay tax as a result of the increases in the basic, the child and the single parent allowances.
216,000	1,480	0.7	-	-	-	1,480	
228,000	2,560	1.1	-	-	-	2,560	
240,000	4,120	1.7	220	0.1	3,900	94.7	
264,000	8,200	3.1	1,000	0.4	7,200	87.8	
288,000	13,000	4.5	2,920	1.0	10,080	77.5	
(2) 312,000	17,800	5.7	6,220	2.0	11,580	65.1	
336,000	22,600	6.7	10,600	3.2	12,000	53.1	
360,000	27,400	7.6	15,400	4.3	12,000	43.8	
384,000	32,200	8.4	20,200	5.3	12,000	37.3	
408,000	37,000	9.1	25,000	6.1	12,000	32.4	
432,000	41,800	9.7	29,800	6.9	12,000	28.7	
456,000	46,600	10.2	34,600	7.6	12,000	25.8	
480,000	51,400	10.7	39,400	8.2	12,000	23.3	
504,000	56,200	11.2	44,200	8.8	12,000	21.4	
528,000	61,000	11.6	49,000	9.3	12,000	19.7	
552,000	65,800	11.9	53,800	9.7	12,000	18.2	
576,000	70,600	12.3	58,600	10.2	12,000	17.0	
600,000	75,400	12.6	63,400	10.6	12,000	15.9	
648,000	85,000	13.1	73,000	11.3	12,000	14.1	
696,000	94,600	13.6	82,600	11.9	12,000	12.7	
744,000	104,200	14.0	92,200	12.4	12,000	11.5	
792,000	113,800	14.4	101,800	12.9	12,000	10.5	
840,000	123,400	14.7	111,400	13.3	12,000	9.7	
(3) 892,000	133,800	15.0	121,800	13.7	12,000	9.0	
936,000	140,400	15.0	130,600	14.0	9,800	7.0	
(4) 1,132,000	169,800	15.0	169,800	15.0	-	-	Taxpayers earning \$1,132,000 or more will pay tax at the standard rate.
1,176,000	176,400	15.0	176,400	15.0	-	-	

- (1) Median income household
- (2) Sandwich class household
- (3) Income level at which salaries taxpayers enter the standard rate zone at present
- (4) Income level at which salaries taxpayers enter the standard rate zone after the 1997-98 Budget.

Effect of the increase in allowances and the revision of the marginal tax bands and rates

Single parent, with one child and one dependent parent / grandparent living with the taxpayer

Annual income	Present tax payable (Exemption level: \$191,000)		Proposed tax payable (Exemption level: \$237,000)		Tax Saving (A) - (B)	Remarks
	Amount	Effective rate	Amount	Effective rate		
(\\$)	(\\$)	(\\$)	(\\$)	(\\$)	(%)	
(1) 204,000	260	0.1	-	-	260	100.0
216,000	850	0.4	-	-	850	100.0
228,000	1,930	0.8	-	-	1,930	100.0
						All taxpayers earning less than \$1,164,000 will benefit from the concessions.
(2) 288,000	11,600	4.0	2,280	0.8	6,470	92.3
312,000	16,400	5.3	5,100	1.6	9,320	80.3
336,000	21,200	6.3	9,000	2.7	11,300	68.9
360,000	26,000	7.2	13,800	3.8	12,200	57.5
384,000	30,800	8.0	18,600	4.8	12,200	46.9
408,000	35,600	8.7	23,400	5.7	12,200	39.6
432,000	40,400	9.4	28,200	6.5	12,200	30.2
456,000	45,200	9.9	33,000	7.2	12,200	27.0
50,000	50,000	10.4	37,800	7.9	12,200	24.4
504,000	54,800	10.9	42,600	8.5	12,200	22.3
528,000	59,600	11.3	47,400	9.0	12,200	20.5
552,000	64,400	11.7	52,200	9.5	12,200	18.9
576,000	69,200	12.0	57,000	9.9	12,200	17.6
600,000	74,000	12.3	61,800	10.3	12,200	16.5
648,000	83,600	12.9	71,400	11.0	12,200	14.6
696,000	93,200	13.4	81,000	11.6	12,200	13.1
744,000	102,800	13.8	90,600	12.2	12,200	11.9
792,000	112,400	14.2	100,200	12.7	12,200	10.9
840,000	122,000	14.5	109,800	13.1	12,200	10.0
888,000	131,600	14.8	119,400	13.4	12,200	9.3
(3) 920,000	138,000	15.0	125,800	13.7	12,200	8.8
936,000	140,400	15.0	129,000	13.8	11,400	8.1
(4) 1,164,000	174,600	15.0	174,600	15.0	-	Taxpayers earning \$1,164,000 or more will pay tax at the standard rate.
1,176,000	176,400	15.0	176,400	15.0	-	

(1) Median income household

(2) Sandwich class household

(3) Income level at which salaries taxpayers enter the standard rate zone at present.

(4) Income level at which salaries taxpayers enter the standard rate zone after the 1997/98 Budget

RATES PERCENTAGE CHARGES

	<i>Present percentage charge</i>	<i>Proposed percentage charge</i>
Urban Council Area		
General Rates for Hong Kong and Kowloon (including New Kowloon)	2.70%	2.40%
Urban Council Rates	2.80%	2.60%
Overall	<u>5.50%</u>	<u>5.00%</u>
Regional Council Area		
General Rates for the New Territories	1.10%	0.80%
Regional Council Rates	4.40%	4.20%
Overall	<u>5.50%</u>	<u>5.00%</u>

EFFECT OF THE GENERAL REVALUATION AND THE BUDGET RATES CONCESSION PACKAGE ON MAIN PROPERTY CLASSES

<i>Property Type</i>	<i>Average Increase/ Decrease(-) in Rateable Value</i> %	<i>1997-98</i>		
		<i>Average Increase /Decrease(-) in Rates Payment</i> %	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises ⁽¹⁾ (Private)	21	29	8.8	360
Medium Domestic Premises ⁽¹⁾ (Private)	27	100	13.3	851
Large Domestic Premises ⁽¹⁾ (Private)	36	276	16.4	1,964
Public Domestic Premises ⁽²⁾	13	5	2.6	196
All Domestic Premises⁽³⁾	23	31	9.3	363
Shops and Commercial Premises	11	-12	-0.6	1,854
Offices	4	-130	-6.0	2,044
Industrial Premises ⁽⁴⁾	-9	-229	-17.0	1,121
All Non-domestic Premises⁽⁵⁾	10	-65	-3.4	1,873
All Properties	17	17	3.0	587

(1) Domestic units are classified by relation to saleable areas as below .

Small domestic	up to 69.9 m ²	(up to 752 sq ft.)
Medium domestic	70 m ² to 99.9 m ²	(753 sq ft - 1,075 sq.ft.)
Large domestic	100 m ² and over	(1,076 sq.ft and above)

(2) Including Housing Authority and Housing Society rental units

(3) Including car parking spaces

(4) Including factories and storage premises

(5) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools, car parking spaces

STAMP DUTY ON PROPERTY TRANSACTIONS

(i) Comparison of present and proposed rates of stamp duty (subject to marginal relief)

<i>Property consideration</i>	<i>Present</i>	<i>Proposed</i>
Up to \$750,000	\$100	\$100
\$750,001 - \$1,000,000	0.75%	\$100
\$1,000,001 - \$1,500,000	0.75%	0.75%
\$1,500,001 - \$2,000,000	1.50%	0.75%
\$2,000,001 - \$2,500,000	1.50%	1.50%
\$2,500,001 - \$3,000,000	2.00%	1.50%
\$3,000,001 - \$3,500,000	2.00%	2.00%
\$3,500,001 - \$4,000,000	2.75%	2.00%
Over \$4,000,000	2.75%	2.75%

(ii) Broad effect of the concession on property transactions

<i>Property consideration</i>	<i>Estimated number of transactions which will benefit under the Budget proposal in 1997-98</i>	<i>Average stamp duty saved per transaction</i>
Up to \$1,000,000	12,000	\$6,200
\$1,000,001 - \$2,000,000	24,100	\$12,000
\$2,000,001 - \$3,000,000	9,400	\$13,200
\$3,000,001 - \$4,000,000	5,100	\$26,000
	<hr/> <u>50,600</u>	

(iii) Examples to show the effect of adjustments to the schedule of stamp duty rates

<i>Property consideration</i>	<i>Duty payable Present</i>	<i>Duty payable Proposed</i>	<i>Duty saved Amount</i>	<i>Duty saved Percentage</i>
\$1,000,000	\$7,500	\$100	\$7,400	99%
\$2,000,000	\$30,000	\$15,000	\$15,000	50%
\$3,000,000	\$60,000	\$45,000	\$15,000	25%
\$4,000,000	\$110,000	\$80,000	\$30,000	27%

ESTATE DUTY

Comparison of present and proposed rates of estate duty (subject to marginal relief)

<i>Estate value</i>	<i>Present</i>	<i>Proposed</i>
Up to \$6,500,000	No duty	No duty
\$6,500,001 to \$7,000,000	6 ^o	No duty
\$7,000,001 to \$8,000,000	6 ^o	6 ^o
\$8,000,001 to \$8,500,000	12 ^o	6 ^o
\$8,500,001 to \$9,500,000	12 ^o	12 ^o
\$9,500,001 to \$10,000,000	18 ^o	12 ^o
Over \$10,000,000	18 ^o	18 ^o

**ADJUSTMENTS TO DUTY RATES
OF HYDROCARBON OIL, TOBACCO,
METHYL ALCOHOL AND ALCOHOLIC BEVERAGES**

Hydrocarbon oil

	<i>Present rate</i> (\$ per litre)	<i>Proposed rate</i> (\$ per litre)
Aircraft spirit	5.79	6.14
Light diesel oil	2.89	3.06
Motor spirit (leaded petrol)	6.43	6.82
Motor spirit (unleaded petrol)	5.72	6.06

Tobacco

	<i>Present rate</i> (\$ per 1,000 sticks)	<i>Proposed rate</i> (\$ per 1,000 sticks)
Cigarettes	682	723
	<i>(\$ per Kg)</i>	
Cigars	877	930
Chinese prepared tobacco	167	177
All other manufactured tobacco except tobacco intended for the manufacture of cigarettes	825	875

Methyl Alcohol

	<i>Present rate</i> (\$ per 100 litres)	<i>Proposed rate</i> (\$ per 100 litres)
Methyl alcohol and any admixture containing methyl alcohol	747.0	792.0
In addition, for every 1% by which the alcoholic strength by volume exceeds 30%	25.0	26.5

Alcoholic Beverages

	<i>Present rate</i> 90%	<i>Proposed rate</i> 60%
Wine		

ECONOMIC PERFORMANCE IN 1996

1. Estimated growth rates of the GDP and its expenditure components and rates of increase in the main price indicators in 1996 :

(i) Growth rates in real terms of :

	(%)	(%)
Private consumption expenditure		4.4
Government consumption expenditure		4.6
Gross domestic fixed capital formation		11.1
transfer costs of land and buildings	52.6	
building and construction	5.6	
real estate developers' margin	3.2	
machinery and equipment	13.5	
Total exports of goods		4.8
domestic exports	-8.4	
re-exports	7.5	
Imports of goods		4.3
Exports of services		6.2
Imports of services		2.0
Gross domestic product (GDP)		4.7
<i>Per capita GDP</i>		2.2
<i>Per capita GDP at current prices</i>	HK\$189,400	
		(US\$24,500)

(ii) Rates of increase in :

Consumer Price Index (A)	6.0
GDP deflator	5.3

2. Performance of domestic exports and re-exports

(i) Annual growth rates in real terms of :

	<i>Domestic exports</i>	<i>Re-exports</i>
	(%)	(%)
1994	-2	14
1995	2	14
1996	-8	8

(ii) Shares of domestic exports and re-exports in the value of total exports :

	<i>Domestic exports</i> (%)	<i>Re-exports</i> (%)
1991	30	70
1992	25	75
1993	21	79
1994	19	81
1995	17	83
1996	15	85

3. Annual growth rates in real terms of retained imports :

<i>Total</i> (%)	<i>Retained imports</i>		
	<i>Foodstuffs and consumer goods</i> (%)	<i>Raw materials and semi-manufactures</i> (%)	<i>Capital goods</i> (%)
1994	14	15	11
1995	13	3	15
1996	-2	-8	*

* Less than 0.5%.

4. Hong Kong's visible and invisible trade balance in 1996 :

	<i>\$Billion</i>
Domestic exports	212
Re-exports	1,186
Total exports	1,398
Imports*	1,540
Visible trade balance	-142
Invisible trade balance #	130
Balance on visible and invisible trade combined #	-12

* Including an estimate of imports of gold for industrial use.

Preliminary estimate.

5. Unemployment and underemployment rates :

	<i>Unemployment rate</i> (%)	<i>Underemployment rate</i> (%)
1994	1.9	1.4
1995	3.2	2.1
1996	2.8	1.7

6. Annual rates of increase in the Consumer Price Indices :

	<i>CPI(A)</i> (%)	<i>CPI(B)</i> (%)	<i>Hang Seng CPI</i> (%)	<i>Composite CPI</i> (%)
1993	8.5	8.7	9.5	8.8
1994	8.1	8.6	10.0	8.8
1995	8.7	9.2	9.6	9.1
1996	6.0 (6.0)	6.6 (6.4)	7.0 (6.6)	6.5 (6.3)

Figures in brackets are 1994/95-based. Figures not in brackets are 1989/90-based.

ECONOMIC PROSPECTS FOR 1997

Forecast growth rates of the GDP and its expenditure components and rates of increase in the main price indicators in 1997:

(i) Growth rates in real terms of :

	(%)	(%)
Private consumption expenditure		5.5
Government consumption expenditure		5
Gross domestic fixed capital formation		7.4
transfer costs of land and buildings	13.5	
building and construction	5.8	
real estate developers' margin	8.5	
machinery and equipment	7.6	
Total exports of goods		8.5
domestic exports	0	
re-exports	10	
Imports of goods		8.9
Exports of services		8
Imports of services		6
Gross domestic product (GDP)		5.5
<i>Per capita GDP</i>		2.5
<i>Per capita GDP at current prices</i>	HK\$207,800	
		(US\$26,600)

(ii) Rates of increase in :

Consumer Price Index (A)	7.0
GDP deflator	7

FULL TEXT OF THE ARTICLES OF THE BASIC LAW REFERRED TO IN THE BUDGET SPEECH

Article 5

The socialist system and policies shall not be practised in the Hong Kong Special Administrative Region, and the previous capitalist system and way of life shall remain unchanged for 50 years.

Article 106

The Hong Kong Special Administrative Region shall have independent finances.

The Hong Kong Special Administrative Region shall use its financial revenues exclusively for its own purposes, and they shall not be handed over to the Central People's Government.

The Central People's Government shall not levy taxes in the Hong Kong Special Administrative Region.

Article 107

The Hong Kong Special Administrative Region shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product.

Article 108

The Hong Kong Special Administrative Region shall practise an independent taxation system.

The Hong Kong Special Administrative Region shall, taking the low tax policy previously pursued in Hong Kong as reference, enact laws on its own concerning types of taxes, tax rates, tax reductions, allowances and exemptions, and other matters of taxation.

Article 109

The Government of the Hong Kong Special Administrative Region shall provide an appropriate economic and legal environment for the maintenance of the status of Hong Kong as an international financial centre.

Article 110

The monetary and financial systems of the Hong Kong Special Administrative Region shall be prescribed by law.

The Government of the Hong Kong Special Administrative Region shall, on its own, formulate monetary and financial policies, safeguard the free operation of financial business and financial markets, and regulate and supervise them in accordance with law.

Article 112

No foreign exchange control policies shall be applied in the Hong Kong Special Administrative Region. The Hong Kong dollar shall be freely convertible. Markets for foreign exchange, gold, securities, futures and the like shall continue.

The Government of the Hong Kong Special Administrative Region shall safeguard the free flow of capital within, into and out of the Region.

Article 114

The Hong Kong Special Administrative Region shall maintain the status of a free port and shall not impose any tariff unless otherwise prescribed by law.

Article 115

The Hong Kong Special Administrative Region shall pursue the policy of free trade and safeguard the free movement of goods, intangible assets and capital.

Article 116

The Hong Kong Special Administrative Region shall be a separate customs territory.

The Hong Kong Special Administrative Region may, using the name "Hong Kong, China", participate in relevant international organizations and international trade agreements (including preferential trade arrangements), such as the General Agreement on Tariffs and Trade and arrangements regarding international trade in textiles.

Export quotas, tariff preferences and other similar arrangements, which are obtained or made by the Hong Kong Special Administrative Region or which were obtained or made and remain valid, shall be enjoyed exclusively by the Region.

Article 121

As regards all leases of land granted or renewed where the original leases contain no right of renewal, during the period from 27 May 1985 to 30 June 1997, which extend beyond 30 June 1997 and expire not later than 30 June 2047, the lessee is not required to pay an additional premium as from 1 July 1997, but an annual rent equivalent to 3 per cent of the rateable value of the property at that date, adjusted in step with any changes in the rateable value thereafter, shall be charged.

Article 151

The Hong Kong Special Administrative Region may on its own, using the name "Hong Kong, China", maintain and develop relations and conclude and implement agreements with foreign states and regions and relevant international organizations in the appropriate fields, including the economic, trade, financial and monetary, shipping, communications, tourism, cultural and sports fields.

APPENDICES

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APPENDIX A

MEDIUM RANGE FORECAST

1996-1997 TO 2000-2001

MEDIUM RANGE FORECAST 1996-1997 TO 2000-2001

INTRODUCTION

The *Medium Range Forecast* (MRF) is a projection of expenditure and revenue for the forecast period based on the forecasting assumptions and budgetary criteria outlined in Section I of this Appendix.

2 The MRF is presented in three sections:

- (I) Forecasting assumptions and budgetary criteria.
- (II) The MRF for 1996-1997 to 2000-2001.
- (III) Commentary on the MRF in relation to budgetary criteria.

SECTION I - FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

3. A number of computer based models are used to derive the MRF. These models reflect a wide range of assumptions about the factors determining each of the components of Government's revenue and expenditure. Some are economic in nature (the general economic assumptions) while others deal with specific areas of Government's activity (the detailed assumptions). These are supported by studies of historical and anticipated trends.

General Economic Assumptions*Growth in Gross Domestic Product (GDP)*

4. There is a clear link between many of Government's major revenue sources and economic growth. For planning purposes the medium range assumption as to annual GDP growth for the current MRF has been set at 5% in real terms.

Inflation

5. Over the forecast period the average year on year inflation is assumed to be 8%. It is emphasised that this is a *trend* assumption related to the GDP deflator.

Detailed Assumptions

6. A wide range of detailed assumptions relating to developing expenditure and revenue patterns over the forecast period are taken into account. These include:

estimated cash flow of capital projects.

forecast completion dates of these capital projects and their related recurrent consequences in terms of staffing and running costs.

estimated cash flow arising from new commitments resulting from policy initiatives.

the expected pattern of demand for individual services.

the trend in yield from individual revenue sources.

new revenue measures in 1997-1998.

Budgetary Criteria

7. In addition to the above forecasting assumptions there are a number of criteria against which the results of forecasts are tested for overall acceptability in terms of budgetary policy. Any significant breach of these parameters results in a review of the underlying programmes and adjustments where necessary and appropriate.

8. The following are the more important budgetary criteria:

- *Total cash flow surplus/deficit*

The Government aims to maintain adequate reserves in the long term.

Total expenditure growth

It is intended that, over time, expenditure growth should not exceed the assumption as to the *trend* growth in GDP.

Capital expenditure growth

By its nature some fluctuations in the level of capital expenditure are to be expected. However, over a period the aim is to contain capital expenditure growth within overall expenditure guidelines, i.e. within the assumption as to the *trend* GDP growth but allowance is made for unavoidable expenditure on exceptional projects. Allowance is also made for a number of major projects due to start in the forecast period. In planning the size of the capital programme regard is had to the recurrent consequences of capital works (staffing, maintenance, etc.).

Revenue policy

The projections reflect the revenue measures introduced in this year's budget. Account is taken of the need to maintain the real yield from fees and charges, fixed duties etc. and to review periodically the various tax thresholds in the light of inflation.

SECTION II—THE MRF FOR 1996–1997 TO 2000–2001

9 The current MRF is summarised in the following three tables which indicate the forecast operating position, capital cash flow and consolidated reserves (*Note a*).

10 It is emphasised that the forecasts are based on *trend* and, therefore, the actual results of any individual year may vary from the *trend* assumption.

Operating Statement (General Revenue Account)

Table 1

	Revised Estimate		Forecast			
	1996–1997		1997–1998	1998–1999	1999–2000	2000–2001
	Sm	Sm	Sm	Sm	Sm	Sm
Revenue <i>Note b</i>	167,950	177,840	200,550	224,830	257,710	
Less: Expenditure <i>Note c</i>	(141,480)	(159,400)	(181,550)	(206,540)	(235,530)	
Operating surplus for the year	26,470	18,440	19,000	18,290	22,180	

Capital Financing Statement (The Funds)

Table 2

	Revised Estimate		Forecast			
	1996–1997		1997–1998	1998–1999	1999–2000	2000–2001
	Sm	Sm	Sm	Sm	Sm	Sm
Opening balances of the Funds	43,240	45,300	62,820	72,090	78,200	
Add: Revenue <i>Note d</i>	34,320	56,900	51,680	55,310	59,650	
Transfers from General Revenue Account <i>Note e</i>	13,420	4,280	5,000	6,000	7,000	
Less: Expenditure on capital projects <i>Note f</i>	(30,360)	(35,680)	(40,810)	(47,990)	(54,910)	
– Loans and investments <i>Notes g and h</i>	(15,300)	(7,980)	(6,600)	(7,210)	(7,740)	
Aid for disaster relief <i>Note i</i>	(20)					
Closing balances of the Funds	45,300	62,820	72,090	78,200	80,200	

Consolidated Reserves

Table 3

	Revised Estimate		Forecast			
	1996–1997		1997–1998	1998–1999	1999–2000	2000–2001
	Sm	Sm	Sm	Sm	Sm	Sm
General Revenue Account						
Opening balance	104,690	117,740	296,500	310,500	322,790	
Operating surplus (per Table 1)	26,470	18,440	19,000	18,290	22,180	
Transfers to the Funds (per Table 2) <i>Note i</i>	(13,420)	(4,280)	(5,000)	(6,000)	(7,000)	
Closing balance	117,740	131,900	310,500	322,790	337,970	
The Funds – closing balances (per Table 2)	45,300	62,820	72,090	78,200	80,200	
Injection into Mandatory Provident Fund Authority <i>Note j</i>			(5,000)			
Fiscal Reserves at 31 March <i>Note k</i>	163,040	187,720	382,590	400,990	418,170	
SARG Land Fund – balance at 1.7.97 <i>Note l</i>		163,500				
interest from 1.7.97		6,100				
Total			359,320			

Notes on the Medium Range Forecast*(a) Accounting policies*

- (i) The Medium Range Forecast, like Government's Accounts, is prepared on a cash basis and reflects forecast receipts and payments, whether or not they relate to recurrent or capital transactions.
- (ii) The Medium Range Forecast includes the General Revenue Account and the Funds (the Capital Works Reserve Fund, the Loan Fund, the Capital Investment Fund, the Disaster Relief Fund and the Civil Service Pension Reserve Fund).
- (iii) The Suspense Account of the Capital Works Reserve Fund is excluded from the Medium Range Forecast since the funds in this Account are not available to the Government until they have been distributed between the Hong Kong Government and the future Hong Kong Special Administrative Region Government (SARG) in accordance with the Joint Declaration.
- (iv) For the purpose of the Medium Range Forecast it has been assumed that the total income received from land transactions from 1 July 1997 will continue to be credited to the Capital Works Reserve Fund.

(b) General Revenue Account Revenue

This comprises all receipts to be credited to any of the eleven revenue heads, namely

Duties

General Rates

Internal Revenue

Motor Vehicle Taxes

Fines, Forfeitures and Penalties

Royalties and Concessions

Properties and Investments

Land Transactions

Loans, Reimbursements, Contributions and Other Receipts

Utilities

Fees and Charges

(c) General Revenue Account Expenditure

This comprises all expenditure to be charged to the General Revenue Account in accordance with the Appropriation Ordinance, with the exception of the transfers to funds. It includes the day to day operational expenses of government departments together with minor capital purchases of a routine nature.

(d) Funds Revenue

This comprises all revenue receivable by the Funds except the transfers from General Revenue Account. It includes

Hong Kong Government's share of land premia received up to 30 June 1997 distributed in accordance with Annex III of the Joint Declaration and the full proceeds of land premia from 1 July 1997

Loan repayments received

Recovery from Mass Transit Railway Corporation

Interest and Dividends

Donations towards capital projects

The breakdown of revenue to the various funds is

	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001
	\$m	\$m	\$m	\$m	\$m
Capital Works Reserve Fund <i>Note 1</i>	29,030	49,370	40,040	46,940	49,380
Capital Investment Fund	3,090	3,140	3,570	4,180	4,750
Civil Service Pension Reserve Fund	510	650	450	470	500
Loan Fund	1,690	3,740	7,620	3,720	5,020
Total	34,320	56,900	51,680	55,310	59,650

(e) Transfers from General Revenue Account to the Funds

The transfers from General Revenue Account to the Funds are assessed with regard to the commitments of the Funds and their forecast cash flow requirements. The breakdown of the transfers for 1996-1997 and 1997-1998 is

Note 1 The significant increase in Capital Works Reserve Fund revenue from 1997-1998 onwards reflects the accounting changes to the treatment of income received from land transactions from 1 July 1997. From the coming into force of the Sino-British Joint Declaration to 30 June 1997 income from land transactions is shared between the HKG and the SARG Land Fund. From 1 July 1997 all income from land transactions will be retained by the HKSARG. Revenue from land transactions for the period 1 July 1997 to 31 March 1998 is estimated to amount to \$22,630 million.

Notes on the Medium Range Forecast *Contd.*

	1996–1997	1997–1998
	Sm	Sm
General Revenue Account	(13,420)	(4,277)
Capital Works Reserve Fund	6,390	0
Loan Fund	3,500	3,750
Capital Investment Fund	3,500	0
Disaster Relief Fund	30	27
Civil Service Pension Reserve Fund	0	500

(f) Expenditure on capital projects

This comprises expenditure chargeable to the Capital Works Reserve Fund in respect of the Public Works Programme (including land acquisition), capital subventions, major systems and equipment and computerisation.

(g) Loans

These comprise loans made from the Loan Fund, including loans to the Housing Society, the Hong Kong Industrial Estates Corporation, schools, teachers, students as well as housing loans to civil servants.

The forecast of payments from the Loan Fund is

1996–1997	1997–1998	1998–1999	1999–2000	2000–2001
Sm	Sm	Sm	Sm	Sm
5,860	7,150	5,700	6,210	8,640

(h) Investments

These comprise, in the main, advances and equity investments made from the Capital Investment Fund to trading funds and statutory bodies including the Mass Transit Railway Corporation and the Airport Authority.

The forecast of payments from the Capital Investment Fund is—

1996–1997	1997–1998	1998–1999	1999–2000	2000–2001
Sm	Sm	Sm	Sm	Sm
9,440	830	900	1,000	1,100

(i) Aid for disaster relief

This is actual expenditure made from the Disaster Relief Fund for providing relief to disasters that occur outside Hong Kong. Because of the unpredictable nature of disasters, no estimate of future expenditure is made for the forecast period.

(j) Mandatory Provident Fund Authority

In 1997–1998, provision has been made for a proposed injection of \$5 billion into the Mandatory Provident Fund Authority, the timing of which is uncertain as it depends on the progress in establishing the Authority and the enactment of the necessary legislation. It is assumed that this payment will be made from the General Revenue Account and hence the opening balance of the General Revenue Account at 1 April 1998 has been adjusted accordingly.

(k) Fiscal reserves

The fiscal reserves represent the accumulated balances of the General Revenue Account and the Funds. The movement in the fiscal reserves from one year to the next year represents the estimated surplus/deficit for the year. A significant factor contributing to the forecast surpluses from 1997–1998 onwards and thus the accumulated fiscal reserves is the accounting changes to the treatment of income from land transactions from 1 July 1997 as described in Note 1 on page 8. The forecast surpluses and fiscal reserves take no account of the likely substantial equity contributions to either the Kowloon Canton Railway Corporation and/or the Mass Transit Railway Corporation towards the costs of the high priority projects under the Railway Development Strategy. The precise manner, amount and timing of any contributions for this purpose are uncertain and will be the subject of decisions to be taken by the future SARG.

(l) SARG Land Fund

- From the entry into force of the Joint Declaration until 30 June 1997 premium income from land transactions is shared between the Hong Kong Government and the future SARG. The future SARG's share of revenue is credited to the SARG Land Fund.
- The balance of this fund at 1 July 1997 has been estimated after taking into account the known balance at 31 March 1996 together with the future SARG's share of land revenue to 30 June 1997. It is assumed that the balance of the Fund will be consolidated with the General Revenue Account from 1 April 1998.

SECTION III—COMMENTARY ON THE MRF

Expenditure Growth

11 To demonstrate that expenditure growth, over time, does not exceed the trend growth rate in the economy, Government's spending plans should be compared with the budgetary guidelines (Diagrams 1 and 2).

Diagram 1

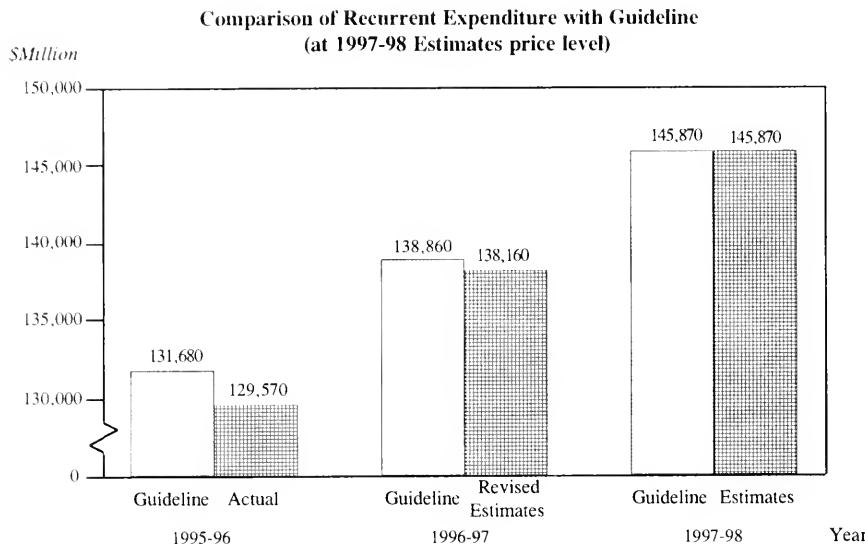
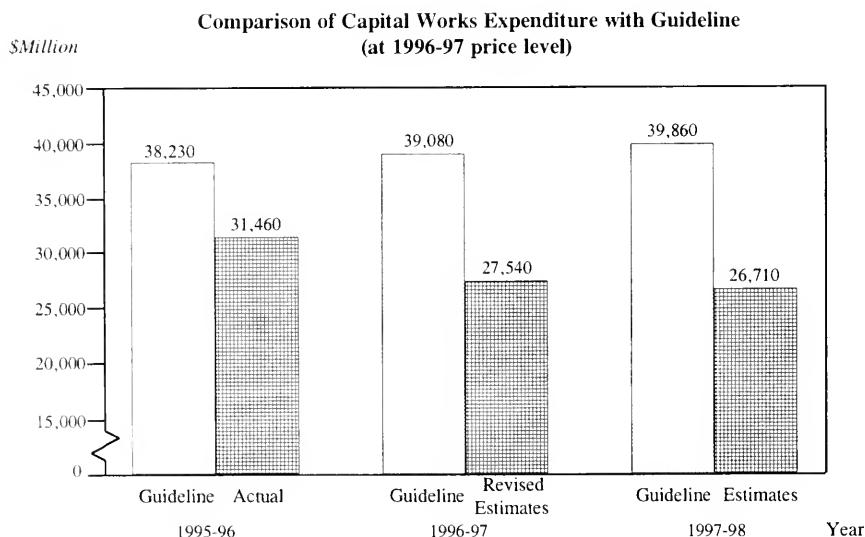


Diagram 2



Public Expenditure in the Context of the Economy

12 For monitoring purposes, the Government's own expenditure is consolidated with the expenditure of some other public bodies such as the Municipal Councils in order to compare total public expenditure with the size of the economy.

13 The results of this comparison are set out in Table 4 and the historical and forecast relationship between GDP and public expenditure is illustrated in Diagram 3. A comparison of cumulative growth in public expenditure with cumulative growth in GDP since the introduction of the MRF in 1986-1987 is shown in Diagram 4.

Public Expenditure in the Context of the Economy *(Note 1)**Table 4*

	Revised Estimate		Forecast		
	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001
	\$m	\$m	\$m	\$m	\$m
Operating expenditure	139,390	156,970	178,790	203,580	232,170
Capital expenditure	38,330	45,260	49,270	57,160	66,910
Total government expenditure	177,720	202,230	228,060	260,740	299,080
<i>Add</i> Other public sector bodies	39,470	46,150	53,000	57,000	58,190
Total public expenditure	217,190	248,380	281,060	317,740	357,270
Gross Domestic Product (calendar year) <i>Note 2</i>	1,195,315	1,355,490	1,537,120	1,743,100	1,976,670
Growth in GDP					
Money terms	10.2	13.4	13.4	13.4	13.4
Real terms	4.7	5.0	5.0	5.0	5.0
Growth in public expenditure					
Money terms	13.5	14.4	13.2	13.1	12.4
Real terms	6.0	6.9	4.5	4.4	3.7
Public expenditure as a percentage of GDP (at current prices) <i>Note 3</i>	18.2	18.3	18.3	18.2	18.1

Note 1 Public expenditure comprises expenditure by the trading funds, the Hong Kong Housing Authority, the Urban Council and the Regional Council, expenditure financed by the Government's statutory funds and all expenditure charged to the General Revenue Account. Expenditure by institutions in the private or quasi-private sector is included to the extent of their subventions. The payments of government departments which are wholly or partly financed by charges raised on a commercial basis are also included (e.g. airport, waterworks). But not included is expenditure by those organisations, including statutory organisations, in which the Government has only an equity position, such as the Mass Transit Railway Corporation and the Kowloon-Canton Railway Corporation. Similarly, advances and equity investments from the Capital Investment Fund are excluded as they do not reflect the actual consumption of resources by the Government.

Note 2 For years beyond the current year, the GDP figures are based on *trend assumptions*.

Note 3 Caution should be exercised in interpreting these percentages as the public expenditure is estimated on a fiscal year basis while the GDP is estimated on a calendar year basis.

Diagram 3

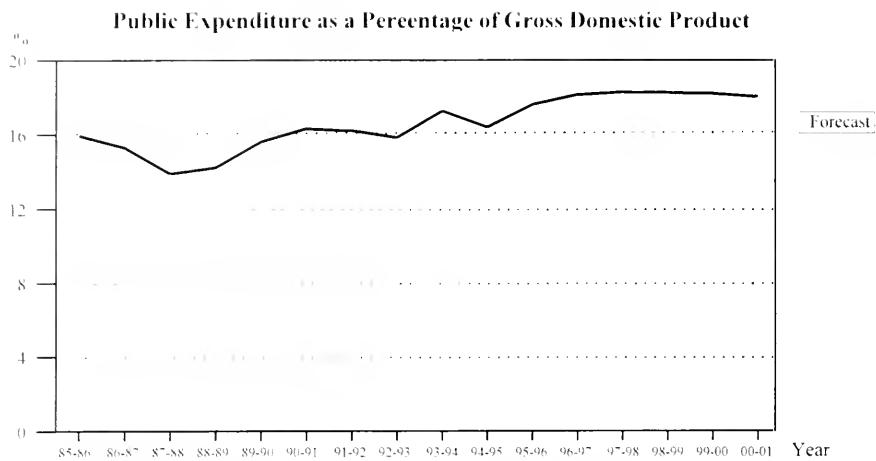
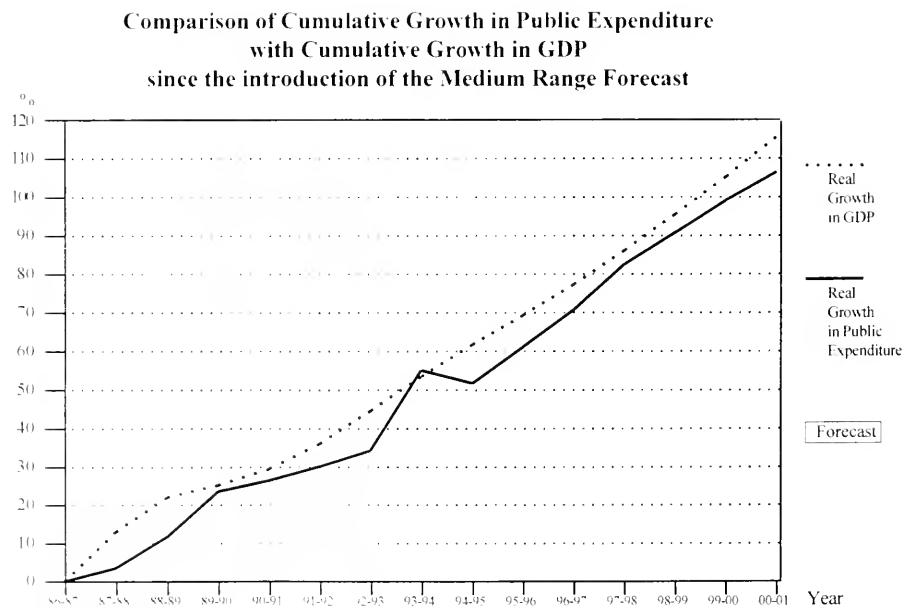


Diagram 4



14 Table 5 shows the sum to be appropriated in the 1997-1998 Budget analysed between operating and capital expenditure and, after including expenditure from the various funds and other public sector bodies, shows the derivation of public expenditure for 1997-1998 given in Table 4.

15 The table also illustrates the effect of the budget revenue measures on the overall surplus/deficit position for 1997-1998.

16 The table can be read with Tables 1-4.

Relationship Between Government Expenditure and Public Expenditure in 1997-1998

Table 5

Components of expenditure and revenue	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure		Sm	Sm	Sm	Sm
General Revenue Account					
Recurrent account	154,410	154,410		154,410	154,410
Capital account					
Plant, equipment and works	1,280		1,280	1,280	1,280
Other non-recurrent	2,555	2,555		2,555	2,555
Subventions	1,155		1,155	1,155	1,155
	159,400	156,965	2,435	159,400	159,400
Transfers to funds	4,275				
Capital Works Reserve Fund					
Works account and Reserve account			35,685	35,685	35,685
Loan Fund			7,145	7,145	7,145
Lotteries Fund ⁽¹⁾					915
Housing Authority					28,640
Urban Council					6,530
Regional Council ⁽²⁾					4,595
Trading funds					5,470
	163,675	156,965	45,265	202,230	248,380
Revenue					
General Revenue Account					
Taxation		138,390	1,445	139,835	
Other revenue		38,480	4,295	42,745	
	176,840	5,740		182,580	
Capital Works Reserve Fund			49,365	49,365	
Capital Investment Fund			3,145	3,145	
Civil Service Pension Reserve Fund			655	655	
Disaster Relief Fund					
Loan Fund			3,735	3,735	
	176,840	62,640		239,480	
Cash surplus/(deficit) before budget revenue measures		19,875	17,375	37,250	
<i>Less</i> Effect of budget revenue measures		(4,730)	(100)	(4,740)	
Cash surplus/(deficit) after budget revenue measures		15,145	17,365	32,510	
<i>Less</i> Advances and equity investments from the Capital Investment Fund			(8,30)	(8,30)	
Consolidated cash surplus/(deficit)		15,145	16,535	31,680	

(1) These other public sector bodies which contribute to public expenditure are all self-financing and receive no recurrent subsidy from the Government

(2) Advances and equity investments from the Capital Investment Fund are excluded from government expenditure (see also Note 4 to Table 4)

(3) See Note (k) on page 9

APPENDIX B

TRENDS IN PUBLIC EXPENDITURE 1992-1993 TO 1997-1998

TRENDS IN PUBLIC EXPENDITURE 1992-1993 TO 1997-1998

INTRODUCTION

The purpose of this appendix is to present trends in public expenditure over the period 1992-1993 to 1997-1998. This analysis is expressed in public expenditure terms as defined in Table 4 of Appendix A and includes expenditure by the trading funds, the Hong Kong Housing Authority, the Urban Council, the Regional Council and the Lotteries Fund. It shows the actual and estimated recurrent and total expenditure during this period and expresses this in terms of ten main policy area groups (an index showing the policy areas forming part of these ten main groups is provided at page 22).

Community and External Affairs

Economic

Education

Environment

Health

Housing

Infrastructure

Security

Social Welfare

Support

Where appropriate, policy area groups are further analysed by policy areas.

2 Details of the individual heads of expenditure contributing to a particular policy area are provided in an index in Volume I of the 1997-1998 Estimates. This index further provides details by head of expenditure of individual programmes which contribute to a policy area.

3 The analysis provided in this appendix shows how resources have been and will, in 1997-1998, be allocated to different policy area groups. Where appropriate historical figures have been adjusted to comply with the current classification of expenditure.

HISTORICAL PERSPECTIVE: THE MAJOR FEATURES

4 The changing share of expenditure on policy area groups from 1992-1993 to 1997-1998 is illustrated in Tables 1 and 2. Table 1 relates to recurrent public expenditure and Table 2 to total public expenditure.

Recurrent Public Expenditure by Policy Area Group 1992-1993 to 1997-1998

Table 1

Policy Area Groups	Actual					Revised Estimate	Draft Estimate
	1992-1993	1993-1994	1994-1995	1995-1996	1996-1997		
	%	%	%	%	%		
(A) Community and External Affairs							
(1) District and Community Relations	0.8	0.7	0.7	0.7	0.8	0.8	
(2) Recreation, Culture and Amenities	5.3	5.3	5.3	5.1	5.2	5.1	
(3) Other	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	6.4	6.3	6.3	6.1	6.3	6.2	
(B) Economic	5.9	5.7	5.3	4.9	4.9	5.1	
(C) Education	21.3	21.4	21.9	21.8	21.5	21.2	
(D) Environment	0.9	1.2	1.5	1.6	1.6	1.7	
(E) Health	13.5	13.8	14.2	14.4	14.2	14.4	
(F) Housing	5.6	6.7	6.5	7.2	7.3	7.6	
(G) Infrastructure							
(1) Buildings, Lands and Planning	2.3	1.8	1.9	1.8	1.8	1.8	
(2) Transport	1.5	1.5	1.3	1.3	1.3	1.4	
(3) Water Supply	2.8	2.7	2.6	2.7	2.6	2.6	
	6.6	6.0	5.8	5.8	5.7	5.8	
(H) Security							
(1) Immigration	1.3	1.2	1.2	1.2	1.1	1.1	
(2) Internal Security	13.6	12.9	12.2	11.3	10.8	10.1	
(3) Other	1.7	1.6	1.7	1.6	1.7	1.8	
	16.6	15.7	15.1	14.1	13.6	13.0	
(I) Social Welfare	7.7	8.4	8.7	9.5	10.5	10.9	
(J) Support	15.5	14.8	14.7	14.6	14.4	14.1	
	100.0	100.0	100.0	100.0	100.0	100.0	
		\$m	\$m	\$m	\$m	\$m	\$m
Total Recurrent Public Expenditure		91,260	105,255	119,920	138,693	159,745	179,560

Total Public Expenditure by Policy Area Group 1992–1993 to 1997–1998

Table 2

Policy Area Groups	Actual						Revised Estimate	Draft Estimate
	1992–1993	1993–1994	1994–1995	1995–1996	1996–1997	1997–1998		
	\$m	\$m	\$m	\$m	\$m	\$m		
(A) Community and External Affairs								
(1) District and Community Relations	0.6	0.5	0.5	0.5	0.6	0.6		
(2) Recreation, Culture and Amenities	4.8	4.6	4.8	4.8	5.1	4.8		
(3) Other	0.3	0.2	0.3	0.2	0.3	0.3		
	5.7	5.3	5.6	5.5	6.0	5.7		
(B) Economic	6.1	8.0	4.4	4.6	4.9	4.7		
(C) Education	17.9	16.4	17.4	17.6	18.0	18.2		
(D) Environment	2.5	2.0	2.7	2.9	3.0	3.3		
(E) Health	11.0	11.9	11.6	12.7	11.5	11.4		
(F) Housing	10.5	10.7	11.9	10.0	11.9	12.9		
(G) Infrastructure								
(1) Buildings, Lands and Planning	6.4	6.3	6.4	5.6	4.1	5.7		
(2) Transport	4.8	5.8	6.4	5.3	4.2	3.0		
(3) Water Supply	2.9	2.8	3.0	3.1	2.8	2.6		
	14.1	14.9	15.8	14.0	11.1	11.3		
(H) Security								
(1) Immigration	1.0	0.9	0.9	0.9	0.9	0.8		
(2) Internal Security	10.9	9.2	9.3	9.3	9.2	8.1		
(3) Other	1.3	1.1	1.2	1.2	1.3	1.4		
	13.2	11.2	11.4	11.4	11.4	10.3		
(I) Social Welfare	6.0	5.9	6.6	7.4	8.4	8.5		
(J) Support	13.0	13.7	12.6	13.9	13.8	13.7		
	100.0	100.0	100.0	100.0	100.0	100.0		

	\$m	\$m	\$m	\$m	\$m	\$m
Total Public Expenditure	123,490	155,207	165,950	191,338	217,195	248,380

Appendix B *Contd.*

5 Recurrent public expenditure and total public expenditure in 1996-1997 and 1997-1998, analysed by policy area groups, are shown in Tables 3 and 4 respectively together with details of the real growths in expenditure between the two years.

Analysis of Recurrent Public Expenditure by Policy Area Group

Table 3

Policy Area Groups	Revised Estimate	Draft Estimate	Increase In Real Terms
	1996-1997	1997-1998	
	\$m	\$m	
(A) Community and External Affairs			
(1) District and Community Relations	1,185	1,370	+ 8.5
(2) Recreation, Culture and Amenities	8,305	9,125	+ 2.7
(3) Other	525	575	+ 2.5
	10,015	11,070	+ 3.4
(B) Economic	7,890	9,205	+ 9.0
(C) Education	34,350	38,115	+ 3.4
(D) Environment	2,540	3,140	+15.5
(E) Health	22,740	25,795	+ 6.5
(F) Housing	11,695	13,630	+ 9.2
(G) Infrastructure			
(1) Buildings, Lands and Planning	2,885	3,300	+ 7.6
(2) Transport	2,080	2,470	+11.5
(3) Water Supply	4,170	4,665	+ 3.3
	9,135	10,435	+ 6.5
(H) Security			
(1) Immigration	1,830	1,920	- 1.1
(2) Internal Security	17,180	18,170	- 1.0
(3) Other	2,710	3,220	+10.6
	21,720	23,310	+ 0.5
(I) Social Welfare	16,745	19,495	+ 9.4
(J) Support	22,915	25,365	+ 4.6
Total Recurrent Public Expenditure	159,745	179,560	+ 5.3

Analysis of Total Public Expenditure by Policy Area Group

Table 4

Policy Area Groups	Revised Estimate	Draft Estimate	Increase In Real Terms
	1996-1997	1997-1998	
	Sm	Sm	
(A) Community and External Affairs			
(1) District and Community Relations	1,335	1,545	+ 8.4
(2) Recreation, Culture and Amenities	11,130	11,955	+ 0.3
(3) Other	550	605	+ 3.4
	13,015	14,105	+ 1.3
(B) Economic	10,545	11,625	+ 3.4
(C) Education	39,165	45,315	+ 7.7
(D) Environment	6,550	8,080	+14.4
(E) Health	25,050	28,215	+ 5.7
(F) Housing	25,845	32,140	+16.0
(G) Infrastructure			
(1) Buildings, Lands and Planning	9,050	14,115	+44.9
(2) Transport	9,080	7,505	-22.8
(3) Water Supply	6,050	6,515	+ 8.3
	24,180	28,135	+ 14.1
(H) Security			
(1) Immigration	1,880	2,045	+ 2.2
(2) Internal Security	19,985	20,150	+ 0.6
(3) Other	2,870	3,400	+10.3
	24,735	25,595	+ 3.4
(I) Social Welfare	18,225	21,195	+ 9.1
(J) Support	29,885	33,975	+ 13.9
Total Public Expenditure	217,195	248,380	+ 16.0

INDEX OF POLICY AREA GROUPS

Policy Area		
Policy Area Group	Description	Reference
Community and External Affairs	District and Community Relations	19
	Recreation, Culture and Amenities	18
	Broadcasting and Entertainment	17
Economic	Air and Sea Communications	3
	Employment	8
	Financial Services	1
	Food Supply	2
	Posts, Telecommunications and Power	4
	Public Safety	7
	Trade and Industry	6
	Travel and Tourism	5
Education	Education	16
Environment	Environmental Protection	23
Health	Health	15
Housing	Housing	31
Infrastructure	Buildings, Lands and Planning	22
	Transport	21
	Water Supply	24
Security	Immigration Control	10
	Internal Security	9
	Administration of Justice	12
	Anti-Corruption	13
	Legal Administration	11
	Legal Aid	20
Social Welfare	Social Welfare	14
Support	Central Management of the Civil Service	26
	Complaints Against Maladministration	30
	Constitutional and Transitional Affairs	28
	Intra-Governmental Services	27
	Revenue Collection and Financial Control	25
	Support for Members of the Legislative Council	29

Note: The Policy Area reference corresponds with that used in the Index of Policy Areas in the Estimates of expenditure.

APPENDIX C

RECURRENT EXPENDITURE GROWTH IN KEY POLICY AREAS IN 1997-1998

**RECURRENT EXPENDITURE GROWTH
IN KEY POLICY AREAS IN 1997-1998**

Additional funds have been provided to finance the following major improvements in services in 1997-1998:

	<i>\$ million (at 1996-1997 prices)</i>
Education	1,170
350 additional graduate teachers for primary schools	
26 more primary schools operating on a whole-day basis	
Increased school places and support for new arrival children	
Implementing the recommendations of the Education Commission Report No. 6 to enhance language proficiency of students	
Enhanced support for Band 5 students	
More financial aid under the Textbook Assistance Scheme	
Improvements to teaching and learning of Putonghua	
Extending civic education to all primary and secondary levels	
Implementing the recommendations of the Board of Education to improve special education	
Integrating children with special needs in ordinary schools	
Environment	390
Additional operating costs of the various waste treatment facilities	
Increased operating costs resulting from the partial commissioning of Phase 1 of the Strategic Sewage Disposal Scheme and projects in the Sewerage Master Plans	
Health	1,480
669 additional hospital beds	
For the elderly, 5 nursing homes, enhancement of the general out-patient service and an additional community geriatric assessment team	
Enhancement of the specialist out-patient services in 2 hospitals	
3 new clinics health centres	
A new oral maxillofacial and dental unit	
Strengthening the Student Health Service	
Extension of the District Health System to Hong Kong Island	
Strengthening enforcement of food regulations	
Setting up a port health unit and a food inspection unit at the Chek Lap Kok airport	
Strengthening the pharmaceutical service to control the use of drugs	

Appendix C *Contd.*

	<i>\$ million (at 1996-1997 prices)</i>
Social Welfare	1,570
For the elderly, an additional 1 546 residential places, 21 social centres, 4 day care centres and 5 multi-service centres	
For people with a disability, an additional 1 664 residential places and 1 150 day places, 2 emergency residential care units, a new domiciliary occupational therapy service, 5 clinical psychologists and 3 regional centres of the Community Rehabilitation Network for the chronically ill	
For children, an additional 3 149 day nursery places, 362 day crèche places, 30 residential home places and 6 small group homes	
An additional 240 pre-school places for children with a disability, of which 6 are extra places for autistic children in special child care centres with additional staff	
An additional 7 family caseworkers and 3 home help teams to strengthen family support services	
14 more school social workers and 1 more outreaching social work team for young people at risk	
12 additional medical social workers	
-A further improvement to the Comprehensive Social Security Assistance Scheme by allowing elderly recipients to receive their monthly standard payment while retiring to Guangdong Province, China	

APPENDIX D

**MAJOR CAPITAL PROJECTS
TO BEGIN IN 1997-1998 OR AFTER**

MAJOR CAPITAL PROJECTS
TO BEGIN IN 1997-1998 OR AFTER

Funds allocated for capital projects to start in 1997-1998 or after include

*\$ million
(at 1996-1997 prices)*

Education	4,230
Construction of 6 primary schools, 7 secondary schools and 6 special/practical/skills opportunity schools	
School Improvement Programme for government schools, Phases 3 and 4	
School Improvement Programme for aided schools, Phase 4	
Environment	4,060
— Sewerage improvement schemes in Tolo Harbour, Wan Chai East, North Point and the Outlying Islands	
Shenzen River improvement works Stage II — remaining works	
West Kowloon storm water drainage improvement — Stages 1 to 3	
Health	2,060
— Construction of a public health laboratory centre	
Improvements to 8 public hospitals	
Kowloon Hospital — refurbishment and redevelopment — Phase I	
Relocation of Tuen Mun Hospital polyclinic	
Infrastructure	10,290
Widening of Tolo Highway and traffic surveillance and information system	
Route 16 — section from West Kowloon to Sha Tin	
Trunk Road T7 in Ma On Shan	
North Lantau — Phase 2A development in Tung Chung	
Tseung Kwan O development Phases 2 and 3 — remaining works	
Additional treatment and water supply facilities for the metropolitan area, north-eastern New Territories and Anderson Road Quarries site development	
Security	1,350
Redevelopment of Tai Lam Correctional Institution	
Construction of Magistracies in Kowloon City and Tsimshatsui	
Expansion of facilities at Lok Ma Chau border crossing	
Renovation of May House, Police Headquarters	

APPENDIX E

GLOSSARY OF TERMS

GLOSSARY OF TERMS

Note: Terms shown in ***bold italic*** are defined elsewhere in the glossary.

Capital expenditure. All expenditure charged to the Loan Fund, the Disaster Relief Fund, the Civil Service Pension Reserve Fund and the Works Account and Reserve Account of the Capital Works Reserve Fund (except debt repayment) plus expenditure from General Revenue Account on Plant, Equipment and Works and Capital Subventions. It does not include advances and equity investments made from the Capital Investment Fund.

Capital revenue. All revenue credited to the Funds except proceeds from borrowings and the exceptions listed under *recurrent revenue*.

Cash surplus/deficit. The difference between *total Government revenue* and *total expenditure* of the General Revenue Account, the Loan Fund, the Disaster Relief Fund, the Civil Service Pension Reserve Fund and the Works and Reserve Accounts of the Capital Works Reserve Fund.

Consolidated cash surplus/deficit. *Cash surplus/deficit* after equity investments (payments from the Capital Investment Fund).

Fiscal reserves. The accumulation of *consolidated cash surpluses*. They are also known as Government reserves.

Funds expenditure. Expenditure charged to the Capital Works Reserve Fund (Works Account or Reserve Account), the Loan Fund, the Disaster Relief Fund, the Civil Service Pension Reserve Fund and the Capital Investment Fund. Transfers to or from the funds are not relevant to the level of expenditure.

Funds revenue. All receipts, except transfers from General Revenue Account, which are credited directly to the funds. These comprise:

Capital Works Reserve Fund

- donations for projects
- land premia *Note 1*
- interest on balances
- recovery from Mass Transit Railway Corporation

Loan Fund

- Loan repayments received
- interest on loans
- interest on balances

Capital Investment Fund

- loan repayments received
- dividends
- interest
- interest on balances

Disaster Relief Fund

- interest on balances

Civil Service Pension Reserve Fund

- interest on balances

General Revenue Account expenditure. All expenditure charged to General Revenue Account in accordance with the Appropriation Ordinance, excluding transfers to funds.

General Revenue Account revenue. All receipts credited to any of the eleven revenue heads.

Note 1 For the purpose of the Medium Range Forecast it has been assumed that the total income received from land transactions from 1 July 1997 will continue to be credited to the Capital Works Reserve Fund.

Government expenditure. The aggregate of *operating expenditure* and *capital expenditure*. It is not the same as *public expenditure*.

Government revenue. The aggregate of *Funds revenue* and *General Revenue Account revenue*.

Operating expenditure. All expenditure from General Revenue Account charged to any of the subheads listed in the estimates under 'Recurrent Account', *plus* Other Non-Recurrent expenditure.

Operating surplus. The difference between *General Revenue Account revenue* and *expenditure*.

Public expenditure. *Government expenditure plus:*

gross expenditure (recurrent and capital) by the trading funds, the Hong Kong Housing Authority and the Urban and Regional Councils; and

payments from the Lotteries Fund.

It is also referred to as Consolidated Public Sector expenditure.

Recurrent revenue. All revenue credited to General Revenue Account (including interest on balances) *except* for:—

disposal proceeds of government quarters

estate duty

taxi concessions

land transactions

recovery from Housing Authority under current financial arrangement

donations

repayment of loans and advances

which are treated as *capital revenue*.

Taxation

earnings and profits tax

estate duty

duties

general rates

bets and sweeps tax

entertainments tax

hotel accommodation tax

stamp duties

air passenger departure tax

Cross-Harbour Tunnel passage tax

motor vehicle taxes

royalties and concessions

